EXHIBIT 2

LEASE AGREEMENT (AEGCO Trust 1)

dated as of December 1, 1989

between

WILMINGTON TRUST COMPANY,
not in its individual capacity
but solely as Owner Trustee
under the Amended and Restated Trust Agreement
(AEGCO Trust 1)
dated as of December 1, 1989 with
Philip Morris Credit Corporation,
as Lessor

and

AEP GENERATING COMPANY,
as Lessee

Sale and Leaseback of an Undivided Interest in
Rockport Generating Station Unit 2
and Sublease of Unit 2 Site Interest

CERTAIN RIGHTS OF THE LESSOR UNDER THIS LEASE AGREEMENT HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF, THE CONNECTICUT NATIONAL BANK, INDENTURE TRUSTEE, UNDER THE TRUST INDENTURE, MORTGAGE AND SECURITY AGREEMENT (AEGCO TRUST 1) DATED AS OF DECEMBER 1, 1989, BETWEEN THE LESSOR AND THE CONNECTICUT NATIONAL BANK, AS INDENTURE TRUSTEE, AS SUCH INDENTURE MAY BE AMENDED, MODIFIED OR SUPPLEMENTED FROM TIME TO TIME IN ACCORDANCE WITH THE PROVISIONS THEREOF. THIS LEASE AGREEMENT HAS BEEN EXECUTED IN SEVERAL COUNTERPARTS. TO THE EXTENT, IF ANY, THAT THIS LEASE AGREEMENT CONSTITUTES CHATTEL PAPER (AS SUCH TERM IS DEFINED IN THE UNIFORM COMMERCIAL CODE AS IN EFFECT IN ANY APPLICABLE JURISDICTION), NO SECURITY INTEREST IN THIS LEASE AGREEMENT MAY BE CREATED THROUGH THE TRANSFER OR POSSESSION OF ANY COUNTERPART HEREOF OTHER THAN THE "ORIGINAL EXECUTED COUNTERPART", WHICH SHALL BE IDENTIFIED AS THE COUNTERPART CONTAINING THE RECEIPT THEREFOR EXECUTED BY THE INDENTURE TRUSTEE ON OR FOLLOWING THE SIGNATURE PAGE THEREOF. SEE SECTION 21 FOR FURTHER INFORMATION CONCERNING THE RESPECTIVE RIGHTS OF THE SEVERAL HOLDERS OF COUNTERPARTS HEREOF.

THIS COUNTERPART IS NOT THE ORIGINAL EXECUTED COUNTERPART.

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LEASE AGREEMENT

LEASE AGREEMENT (AEGCO Trust 1) dated as of December 1, 1989, between WILMINGTON TRUST COMPANY, a Delaware banking corporation, not in its individual capacity but solely as Owner Trustee under the Amended and Restated Trust Agreement (AEGCO Trust 1) dated as of December 1, 1989 with PHILIP MORRIS CREDIT CORPORATION, as Lessor, and AEP GENERATING COMPANY, an Ohio corporation, as Lessee.

WHEREAS, the Lessor owns the Undivided Interest and is the lessee of the Unit 2 Site Interest;

WHEREAS, the Lessee desires to lease from the Lessor the Undivided Interest and to sublease from the Lessor the Unit 2 Site Interest, in each case upon the terms and subject to the conditions set forth herein;

WHEREAS, the Lessor is willing to lease the Undivided Interest and sublease the Unit 2 Site Interest to the Lessee upon the terms and subject to the conditions set forth herein; and

WHEREAS, the following documents were recorded in the Office of the Recorder of Spencer County, Indiana, on the day of December, 1989: (i) Trust Agreement, as Instrument No. , in Record No. , Page ; (ii) Bill of Sale, as Instrument No. , in Record No. , Page ; and (iii) Ground Lease, as Instrument No. , in Record No. , Page ;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. **Definitions.** For purposes of this Lease, capitalized terms used herein shall have the meanings assigned to them in Appendix A (such definitions to be equally applicable to both the singular and plural forms of the terms defined). Any term defined by reference to an agreement, instrument or other document shall have the meaning so assigned to it whether or not such document is in effect. Unless otherwise indicated, references in this Lease to sections, paragraphs, clauses, appendices, schedules and exhibits are to the same contained in or attached to this Lease.

SECTION 2. **Lease of Undivided Interest and Sublease of Unit 2 Site Interest; Term; Personal Property.** (a) Upon the terms and subject to the conditions of this Lease, the Lessor hereby leases to the Lessee, and the Lessee hereby leases from the Lessor, the Undivided Interest, and the Lessor hereby subleases to the Lessee, and the Lessee hereby subleases from the Lessor, the Unit 2 Site Interest.

(b) The term of this Lease shall begin on the Closing Date and shall end on the last day of the Lease Term.

(c) It is the intention of the Lessor and the Lessee that Unit 2 (including the Undivided Interest), each Modification and every portion thereof is severed, and shall be and remain severed, to the maximum extent permitted by Applicable Law, from the real estate constituting the Rockport Plant Site and even if physically attached thereto, shall retain the character of personal property, shall be treated as personal property with respect to the rights of all Persons whomsoever, shall be removable (subject to the provisions of the Transaction Documents) and shall not be or become fixtures or part of the real estate constituting the Rockport Plant Site.

(d) The Undivided Interest is described in Exhibit A, and the Unit 2 Site Interest is described in Exhibit B.

SECTION 3. **Rent; Adjustments to Rent.**

(a) *Basic Rent.* The Lessee shall pay to the Lessor, as basic rent (herein referred to as *"Basic Rent"*) for the Undivided Interest, the following amounts:

(i) on each date occurring during the Basic Lease Term upon which interest is due and payable on any of the Notes then Outstanding, an amount equal to the aggregate amount of all such interest due and payable on such Notes; and

(ii) on each Basic Rent Payment Date occurring during the Basic Lease Term, an amount equal to the percentage of Lessor's Cost set forth opposite such Basic Rent Payment Date on Schedule 1; and

(iii) on each Basic Rent Payment Date occurring during the Fixed Rate Renewal Term, if any, an amount equal to the Fixed Rate Renewal Basic Rent; and

(iv) on each Basic Rent Payment Date occurring during a Fair Market Renewal Term, if any, an amount determined as provided in Section 12(b).

(b) *Supplemental Rent.* The Lessee shall pay to the Lessor, or to whomever shall be entitled thereto, as supplemental rent (herein referred to as "*Supplemental Rent*"), the following amounts:

(i) when due, any amount payable hereunder as Stipulated Loss Value or Termination Value; and

(ii) when due, any amount payable by the Owner Trustee to the Original Loan Participants, the Agents or the Administrative Agent as fees, additional interest, increased costs, losses or expenses under the Participation Agreement Supplement, including, without limitation, pursuant to Section 3.03, 3.07, 3.09, 3.10, 3.13 or 3.15 of the Participation Agreement Supplement; and

(iii) when due, any amounts payable by the Owner Trustee in respect of premiums and any other amounts (other than principal and interest) payable on the Notes except to the extent such amounts are payable as a result of an Indenture Event of Default that is not an Event of Default; and

(iv) when due, or when no due date is specified, on demand, any amount (other than Basic Rent, Stipulated Loss Value or Termination Value) that the Lessee is required to pay to, or for the account of, the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, the Agents, the Administrative Agent or any Indemnitee under this Lease, any other Transaction Document or the Collateral Trust Indenture; and

(v) on demand and, in any event, not later than the Basic Rent Date next succeeding the date such amounts shall be due and payable hereunder, to the extent permitted by Applicable Law, interest (computed on the same basis as interest on the Notes is computed) on any Rent not paid when due at a rate per annum equal to (A) the Overdue Interest Rate, on that portion of the Payment of Basic Rent or Supplemental Rent distributable pursuant to clause "*first*" of Section 5.01 of the Indenture or clause "*second*" of Section 5.03 of the Indenture (determined prior to the computation of interest on overdue payments referred to in such clauses), and (B) the Penalty Rate, on the balance of any such payment of Rent (including, without limitation, to the extent permitted by Applicable Law, interest payable pursuant to this clause (iii) not paid when due (without regard to any period of grace) for any period for which the same shall be overdue).

(c) *Method of Payment.* Subject to Section 11(b), each payment of Rent shall be made in immediately available funds no later than 12:00 noon, local time at the place of receipt, on the date such payment shall be due and payable hereunder, and shall be paid either (i) in the case of payments other than Excepted Payments and payments of Supplemental Rent pursuant to Section 3(b)(ii), to the Lessor at its address determined in accordance with Section 17, or at such other address as the Lessor may specify by notice in writing to the Lessee, or (ii) in the case of Excepted Payments and payments of Supplemental Rent pursuant to Section 3(b)(ii), to such Person as shall be entitled to receive such payment at such address as such Person may specify by notice to the Lessee If the date on which any payment of Rent is due hereunder is not a Business Day, such payment shall be made as aforesaid on the next succeeding Business Day, with the same force and effect as if made on the nominal due date provided for in this Lease (together with an amount equal to the interest, if any, accrued on the principal of any of the Notes as a result of such extension); *provided, however,* that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances evidenced by any Initial Series A Note to be made in the next succeeding calendar month, such payment shall be made on the next preceding Business Day.

(d) *Adjustments to Rent.* The percentages for Basic Rent, Stipulated Loss Value and Termination Value set forth, respectively, in Schedules 1, 2 and 3, have been calculated in part on the basis of the Pricing Assumptions. If (x) any such Pricing Assumption proves to have been incorrect, or (y) there is any Change in Tax Law on or prior to the Closing Date (including, for the purposes of this Section 3(d), any amendment to the Code that is passed by Congress on or prior to the Closing Date and enacted into law after the Closing Date), or (z) any Refunding Notes are issued, then, and in each such case, such percentages for Basic Rent, Stipulated Loss Value and Termination Value shall be adjusted (upward or downward) so as to preserve the Owner Participant's Initial Theoretical Return. Any adjustments pursuant to this Section 3(d) shall (A) satisfy the provisions of Revenue Procedure 75-28 and any other applicable statutes, regulations, revenue procedures, revenue rulings or technical information releases relating to the subject matter of such revenue procedures, (B) be made in a manner designed to avoid application of Section 467(b)(2) of the Code and any regulations thereunder or any other similar provision of Federal income tax law and not otherwise cause any adverse effect under any Federal income tax law in effect at the time of such adjustment, (C) not cause the transaction effected pursuant to this Lease to be classified by the Owner Participant as other than a leveraged lease as defined under then current generally accepted accounting principles for leveraged leases, (D) not cause the transactions effected pursuant to the Participation Agreement and this Lease to be classified by the Lessee as other than a "sale-leaseback transaction" and an "operating lease", as such terms are defined under then current generally accepted accounting principles for leveraged leases, (E) to the extent possible and not inconsistent with the foregoing, minimize the net present value cost of the Basic Rent to the Lessee to the extent the foregoing criteria are met (subject to the requirements of Section 3(e) hereof), and (F) in the case of adjustments predicated upon the issuance of any Refunding Notes, take into account any adverse income tax consequences to the Owner Participant that would not have occurred had such Refunding Notes not been issued (other than the consequences of a determination that this Lease is not a "true lease" for Federal income tax purposes).

The percentages for Basic Rent, Stipulated Loss Value and Termination Value also shall be subject to adjustment pursuant to Section 8(e), and pursuant to Section 5(a) of the Tax Indemnification Agreement.

(e) *Computation of Adjustments.* (i) Upon the occurrence of an event requiring adjustments to the percentages for Basic Rent, Stipulated Loss Value and Termination Value pursuant to Section 3(d) or 8(e) or pursuant to Section 5(a) of the Tax Indemnification Agreement, the Owner Participant shall make the necessary computations on a basis consistent with that used by the Owner Participant in the computation of the percentages for Basic Rent, Stipulated Loss Value and Termination Value in connection with the execution and delivery of the Participation Agreement, taking into account only the event giving rise to the adjustments. Subject to paragraph (ii) of this Section 3(e), such adjustments shall be effective from and including the date the Owner Participant shall have furnished to the Lessee a certificate signed on behalf of the Owner Participant by a Responsible Officer confirming that such adjustments have been properly computed in accordance with the provisions of this Lease, and shall remain effective until changed in consequence of any inaccuracy discovered in the course of any verification procedure conducted pursuant to paragraph (ii) of this Section 3(e) or in consequence of any event occurring thereafter requiring further adjustment pursuant to Section 3(d) or 8(e) or pursuant to the Tax Indemnification Agreement.

(ii) Within 30 days after the Owner Participant shall have provided the Lessee with a certificate pursuant to paragraph (i) of this Section 3(e), the Lessee may request that the Owner Participant furnish all information necessary to permit the confirmation of the accuracy of the Owner Participant's computation of the adjustments described in such certificate to Goldman Sachs or to such other investment banking firm reasonably acceptable to the Owner Participant as the Lessee may specify. Within 30 days after its receipt of such information, Goldman Sachs or such other investment banking firm, as the case may be, either shall confirm the accuracy of such computation or shall notify the Owner Participant that such computation, and the resulting adjustments proposed by the Owner Participant, are inaccurate. In the latter event, the Owner Participant shall consult with the Lessee and Goldman Sachs or such other investment banking firm as to the proper computation of the adjustments, whereupon the Owner Participant shall recompute the adjustments in such a manner as shall enable Goldman Sachs or such other investment banking firm to confirm their accuracy. If Goldman Sachs or such other investment banking firm is unable to confirm the accuracy of such adjustments, neither the Owner Participant nor the Lessee shall be bound thereby, *provided*, that if the Owner Participant and the Lessee then agree to submit the matter to a second independent investment banking firm or other independent Person acceptable to them, the conclusion of such firm or other Person as to the proper adjustments shall be conclusive and binding on the Lessee, the Owner Participant and the Lessor. All expenses incurred by the Owner Participant and the Lessee in connection with the verification procedures described in this paragraph (ii) (including the fees and expenses of Goldman Sachs or such other investment banking firm) shall be paid by the Lessee, unless the adjustments of the percentages for Basic Rent proposed by the Owner Participant shall exceed the actual adjustments of such percentages, properly computed and confirmed, by more than 5%, in which case all such expenses shall be paid by the Owner Participant. Each adjustment of the percentages for Basic Rent, Stipulated Loss Value and Termination Value may, but need not (unless requested by the Lessee, the Lessor or the Owner Participant), be evidenced by the execution and delivery of a supplement to this Lease in form and substance satisfactory to the Lessee and the Owner Participant, and shall be effective as provided herein without regard to the date on which such supplement to this Lease is so executed and delivered.

(f) *Sufficiency of Basic Rent and Supplemental Rent.* Notwithstanding any other provision of this Lease, any other Transaction Document or any Financing Document, (i) the amount of the installment of Basic Rent payable on each Basic Rent Payment Date or on such other date as any installment of Basic Rent may be due and payable shall be at least equal to the aggregate amount of principal (other than principal due by reason of prepayment or acceleration) and accrued interest due and payable on such Basic Rent Payment Date or such other date in respect of all Notes then Outstanding and (ii) each payment of Stipulated Loss Value or Termination Value (when added to all other amounts required to be paid by the Lessee under this Lease in respect of any Event of Loss or Deemed Loss Event or termination of this Lease) shall be at least equal to an amount sufficient, as of the date of payment, to pay in full the principal of and premium, if any, and interest on all Notes Outstanding on and as of such date of payment.

(g) *Rent for Unit 2 Site Interest.* During the term of this Lease, the Lessee shall pay to the Lessor, as rent for the sublease by the Lessor to the Lessee of the Unit 2 Site Interest pursuant to Section 2(a), an amount equal to the amount payable by the Lessor to the Lessee as rent under subsection 6.1(a) of the Ground Lease. The amount payable by the Lessee under this Section 3(h) shall be due on each date on which rent is due from the Lessor under subsection 6.1(a) of the Ground Lease, and shall automatically be offset against the amount due under said subsection 6.1(a) on each date on which such amount is due.

SECTION 4. Net Lease. This Lease is a net lease and the Lessee hereby acknowledges and agrees that the Lessee's obligation to pay all Rent hereunder, and the rights of the Lessor in and to such Rent, shall be absolute, unconditional and irrevocable and shall not be affected by any circumstance of any character, including, without limitation: (i) any set-off, abatement, counterclaim, suspension, recoupment, reduction, rescission, defense or other right or claim that the Lessee may have against the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, any Holder of a Note, the Operator, AEP or any of its subsidiaries, any vendor or manufacturer of any equipment or assets included in Unit 2, any Modification, the Common Facilities or the Rockport Plant or any part of any thereof, or any other Person for any reason whatsoever; (ii) any defect in or failure of the title, merchantability, condition, design, compliance with specifications, operation or fitness for use of all or any part of the Undivided Interest, Unit 2, any Modification, the Unit 2 Site Interest, the Unit 2 Site, the Easements, the Common Facilities, the Rockport Plant Site or the Rockport Plant; (iii) any damage to, or removal, abandonment, dismantling, decommissioning, shutdown, salvage, scrapping, requisition, taking, condemnation, loss, theft or destruction of all or any part of Unit 2, any Modification, the Unit 2 Site, the Common Facilities, the Rockport Plant Site or the Rockport Plant or any interference, interruption or cessation in the use or possession of the Undivided Interest, the Unit 2 Site Interest or the Easements by the Lessee or by any other Person for any reason whatsoever or of whatever duration; (iv) any restriction, prevention or curtailment of or interference with any use of all or any part of the Undivided Interest, Unit 2, any Modification, the Unit 2 Site Interest, the Unit 2 Site, the Easements, the Common Facilities, the Rockport Plant Site or the Rockport Plant; (v) any insolvency, bankruptcy, reorganization or similar proceeding by or against the Lessee, the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, any Holder of a Note, AEP or any of its subsidiaries or any other Person; (vi) the invalidity, illegality or unenforceability of this Lease, any other Transaction Document, any Financing Document, any Rockport Plant Agreement or any other instrument referred to herein or therein or any other infirmity herein or therein or any lack of right, power or authority of the Lessor, the Lessee, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, any Holder of a Note, AEP or any of its subsidiaries or any other Person to enter into this Lease, any other Transaction Document, any Financing Document or any Rockport Plant Agreement or to perform the obligations hereunder or thereunder or consummate the transactions contemplated hereby or thereby or any doctrine of force majeure, impossibility, frustration or failure of consideration; (vii) the breach or failure of any warranty or representation made in this Lease, any other Transaction Document, any Financing Document or any Rockport Plant Agreement by the Lessee, the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee, any Holder of a Note, AEP or any of its subsidiaries or any other Person; or (viii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing. The Lessee hereby waives, to the extent permitted by Applicable Law, any and all rights that it may now have or that at any time hereafter may be conferred upon it, by statute or otherwise, to modify, terminate, cancel, quit or surrender this Lease or to effect or claim any diminution or reduction of Rent payable by the Lessee hereunder, except in accordance with the express terms hereof. The Lessee agrees that, if for any reason whatsoever this Lease shall be terminated in whole or in part by operation of law or otherwise, then, except as provided herein, the Lessee shall pay, to the maximum extent permitted by Applicable Law, to the Lessor or any other Person entitled thereto, an amount equal to each installment of Basic Rent and all Supplemental Rent at the time such payment would have become due and payable in accordance with the terms hereof had this Lease not been terminated in whole or in part. Each payment of Rent made by the Lessee hereunder shall be final and the Lessee shall not seek or have any right to recover all or any part of such payment from the Lessor or any Person for any reason whatsoever. All covenants, agreements and undertakings of the Lessee herein shall be performed at its cost, expense and risk unless expressly otherwise stated. Nothing in this Section 4 or elsewhere shall be construed as a guaranty by the Lessee of any residual value in the Undivided Interest or as a guaranty of the Notes or any Bonds.

SECTION 5. Relinquishment of Possession and Use of the Undivided Interest. Unless the Lessee has theretofore acquired the Undivided Interest as provided herein, on the Lease Termination Date the Lessee shall (i) surrender possession of the Undivided Interest and the Unit 2 Site Interest to the Lessor (or to a Person specified by the Lessor to the Lessee in writing not less than 30 days prior to the Lease Termination Date) and (ii) cause the Lessor or such other Person to have full rights as a "Participant" under, and as defined in, the Unit 2 Operating Agreement. At the time of such surrender, the Lessee shall pay or have paid all amounts due and payable, or to become due and payable, by it under the Operating Agreement allocable or chargeable (whether or not payable during or after the Lease Term) to the Undivided Interest and the Unit 2 Site Interest in respect of any period or periods ending on or prior to the Lease Termination Date (including, without limitation, all amounts payable with respect to any and all Modifications approved or authorized (without the consent of the Lessor) prior to the Lease Termination Date, whether or not implementation thereof has been completed on or prior to such date), and the Undivided Interest, the Unit 2 Site Interest and the Easements shall be free and clear of all Liens (other than Liens described in clauses (i), (iii), (iv) (to the extent such Taxes are not due and payable), (vi), (vii) (to the extent such Liens are bonded), (viii) through (xiv) and (xvii) of the definition of "Permitted Liens") and in the condition and state of repair required by Section 8(a).

SECTION 6. Warranty of the Lessor.

(a) *Quiet Enjoyment.* The Lessor warrants that, unless an Event of Default shall have occurred and be continuing and (except in the case of an Event of Default specified in Section 15(e)) this Lease shall have been declared to be in default pursuant to Section 16(a), the Lessee's use and possession of Unit 2, the Unit 2 Site and the Common Facilities (including the Undivided Interest, the Unit 2 Site Interest and the Easements) shall not be interrupted by the Lessor or any Person acting by, through or under the Lessor, or their respective successors and assigns.

(b) *Disclaimer of Other Warranties.* The warranty set forth in Section 6(a) is in lieu of all other warranties of the Lessor, whether written, oral or implied, with respect to this Lease, the Undivided Interest, Unit 2, any Modification, the Unit 2 Site Interest, the Unit 2 Site, the Easements, the Common Facilities, the Rockport Plant Site or the Rockport Plant. As among the Owner Participant, the Holders of the Notes, the Indenture Trustee, the Collateral Trust Trustee, the Lessor and the Lessee, execution by the Lessee of this Lease shall be conclusive proof of the compliance of the Undivided Interest, Unit 2, any Modification, the Unit 2 Site Interest, the Unit 2 Site, the Easements and the Common Facilities with all requirements of this Lease, and the Lessee acknowledges and agrees that (i) NEITHER THE LESSOR NOR THE OWNER PARTICIPANT IS A MANUFACTURER OF OR A DEALER IN PROPERTY OF SUCH KIND, (ii) THE LESSOR LEASES AND THE LESSEE TAKES THE UNDIVIDED INTEREST, AND SHALL TAKE EACH MODIFICATION AND ANY PART THEREOF, AS IS AND WHERE IS, WITH ALL FAULTS, AND (iii) THE LESSOR SUBLEASES AND THE LESSEE TAKES THE UNIT 2 SITE INTEREST AND THE EASEMENTS AS IS AND WHERE IS, WITH ALL FAULTS, and neither the Lessor nor the Owner Participant makes or shall be deemed to have made, and THE LESSOR AND THE OWNER PARTICIPANT EACH HEREBY DISCLAIMS, ANY OTHER REPRESENTATION OR WARRANTY, EITHER EXPRESS OR IMPLIED, AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE DESIGN OR CONDITION OF UNIT 2, ANY MODIFICATION, THE UNIT 2 SITE, THE COMMON FACILITIES, THE ROCKPORT PLANT SITE OR THE ROCKPORT PLANT OR ANY PART THEREOF, THE MERCHANTABILITY THEREOF OR THE FITNESS THEREOF FOR ANY PARTICULAR PURPOSE, TITLE TO THE UNDIVIDED INTEREST, UNIT 2, ANY MODIFICATION, THE UNIT 2 SITE INTEREST, THE UNIT 2 SITE, THE EASEMENTS, THE COMMON FACILITIES, THE ROCKPORT PLANT SITE OR THE ROCKPORT PLANT, OR ANY PART THEREOF, THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREOF OR CONFORMITY THEREOF TO SPECIFICATIONS, FREEDOM FROM PATENT OR TRADEMARK INFRINGEMENT OR THE ABSENCE OF ANY LATENT OR OTHER DEFECTS, WHETHER OR NOT DISCOVERABLE, NOR SHALL THE LESSOR OR THE OWNER PARTICIPANT BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES (INCLUDING LIABILITY IN TORT, STRICT OR OTHERWISE), it being agreed that all such risks, as among the Owner Participant, the Holders of Notes, the Indenture Trustee, the Collateral Trust Trustee, the Lessor and the Lessee, are to be borne by the Lessee. The provisions of this Section 6(b) have been negotiated, and, except to the extent otherwise expressly provided in Section 6(a) and in Sections 5.02, 5.03, 5.04 and 5.05 of the Participation Agreement, the foregoing provisions are intended to be a complete exclusion and negation of any representations or warranties by the Lessor, the Owner Participant, the Holders of Notes, the Indenture Trustee and the Collateral Trust Trustee, express or implied, with respect to the Undivided Interest, Unit 2, any Modification, the Unit 2 Site Interest, the Unit 2 Site, the Easements, the Common Facilities, the Rockport Plant Site or the Rockport Plant that may arise pursuant to the Uniform Commercial Code or any other law now or hereafter in effect, or otherwise.

(c) *Enforcement of Certain Warranties.* The Lessor authorizes the Lessee (directly or through agents, including the Operator), at the Lessee's expense, to assert for the Lessor's account, during the Lease Term, all of the Lessor's rights (if any) under any applicable warranty and any other claim (under this Lease or any Purchase Document) that the Lessee or the Lessor may have against any vendor or manufacturer with respect to the Undivided Interest, Unit 2 or any Modification, and the Lessor agrees to cooperate, at the Lessee's expense, with the Lessee and its agents in asserting such rights. Any amount recovered by the Lessee under any such warranty or other claim against any vendor or manufacturer (or, if such warranty or claim relates to the Undivided Interest and the Retained Assets, the portion of such received amount appropriately allocable to the Undivided Interest) shall be applied in accordance with Sections 9(g), (h) and (i).

SECTION 7. Liens. The Lessee shall not directly or indirectly create, incur or suffer to exist any Lien on or with respect to the Undivided Interest or the Unit 2 Site Interest, the Lessor's title thereto or interest therein, as the case may be, or any title or interest of the Lessee therein, except Permitted Liens, and the Lessee, at its own expense, shall take such action as may be necessary duly to discharge any such Lien that may arise.

SECTION 8. Operation and Maintenance; Modifications; Identification.

(a) *Operation and Maintenance.* The Lessee shall cause the Operator to: (i) maintain Unit 2 and the Common Facilities in such condition that Unit 2 will have the capacity and functional ability to perform, on a continuing basis (ordinary wear and tear excepted), in normal commercial operation, the functions for which it was designed; (ii) operate, service, maintain and repair Unit 2 and the Common Facilities and replace all necessary or useful parts and components thereof so that the condition and operating efficiency of Unit 2 will be maintained and preserved, ordinary wear and tear excepted, in all material respects in accordance with (A) Prudent Utility Practice and the standards observed by AEP and its Affiliates for items of similar size and nature, (B) such operating standards as shall be required to take advantage of and enforce all available warranties and (C) the terms and conditions of all insurance policies required to be maintained pursuant to Section 10; (iii) use, possess, operate and maintain Unit 2 and the Common Facilities in compliance with all material applicable Governmental Actions affecting the Rockport Plant or Unit 2 or the Common Facilities or the use, possession, operation and maintenance thereof; and (iv) otherwise act in accordance with the Operating Agreement. Subject to Section 8(h), the Lessee shall comply, and shall cause the Operator to comply, with all the Lessee's obligations under Applicable Law affecting Unit 2, the Undivided Interest, the Unit 2 Site, the Unit 2 Site Interest, the Common Facilities, the Easements, the Rockport Plant Site and the Rockport Plant. The Lessee agrees to act as an "Owner" or a "Participant", as the case may be, under the Operating Agreement until the Lease Termination Date, whereupon, unless there is a Transfer pursuant to Section 9(c), 9(d) or 14, as the case may be, the Lessor (or its transferee) will be substituted therefor. So long as the Lessee remains an "Owner" or a "Participant", as the case may be, under the Operating Agreement: (x) the Lessee shall comply with all its obligations under the Operating Agreement, including, without limitation, its obligation to pay its share of the costs of the operation and maintenance of Unit 2 and the Common Facilities, except where the failure to do so would not have a materially adverse effect on the Undivided Interest; (y) the Lessee shall not permit the percentages of "Total Net Capability of Unit 2" and "Total Net Generation of Unit 2" (as such terms are defined in the Operating Agreement) to which the Lessee is (and, after the Lease Termination Date, the Lessor or its transferee will be) entitled under the Operating Agreement to be less than the Undivided Interest Percentage; and (z) the Lessee shall not permit the Operating Agreement to be amended, modified or supplemented in a manner that would have a material adverse effect on the Undivided Interest or the Lessee's ability to comply with the provisions of this Section 8(a).

(b) *Inspection.* Upon not less than five Business Days' notice to the Lessee, the Lessor, the Owner Participant, the Indenture Trustee and the Collateral Trust Trustee and their authorized representatives shall have the right to inspect Unit 2 and the Common Facilities (subject, in each event, to the Operating Agreement, Applicable Law, applicable confidentiality undertakings and procedures established by the Operator) at their expense. Upon not less than five Business Days' notice to the Lessee, the Lessor and the Owner Participant and their respective authorized representatives shall have the right (subject as aforesaid), at their expense, to inspect the books and records of the Lessee relating to Unit 2 and the Common Facilities and to make copies of and extracts therefrom (other than copies of and extracts from engineering or other proprietary data and information), and may, at their expense, discuss the Lessee's affairs, finances and accounts with its executive officers, all at such times and as often as may be reasonably requested. None of the Lessor, the Owner Participant, the Indenture Trustee and the Collateral Trust Trustee shall have any duty whatsoever to make any inspection or inquiry referred to in this Section 8(b) or shall incur any liability or obligation by reason of not making any such inspection or inquiry.

(c) *Modifications.* The Lessee, at its expense (except as provided in Section 8(e)), shall participate in the making of any Modification required by the Operating Agreement or, subject to Section 8(h), by any Applicable Law or Governmental Action. In addition, the Lessee, at its expense (except as provided in Section 8(e)), from time to time may participate in the making of any Modification that the Lessee may deem desirable in the conduct of its business; *provided, however,* that the Lessee shall not have the right to participate in the making of any such optional Modification that will materially diminish the value or utility of Unit 2 or materially reduce its remaining useful life.

(d) *Title to Modifications.* Title to an undivided interest, equal to the Undivided Interest Percentage, in each Modification shall vest as follows:

(i) in the case of each Nonseverable Modification, whether or not the Lessor shall have financed or arranged financing (in whole or in part) of the cost of such undivided interest in such Modification by an Additional Equity Investment or a Supplemental Financing, or both, the Lessor shall, without further act, effective on the date such Modification shall have been incorporated into Unit 2, acquire title to such undivided interest in such Modification;

(ii) in the case of each Severable Modification, if the Lessor shall have financed or arranged financing (in whole) of the Undivided Interest Percentage of the cost of such Modification (by an Additional Equity Investment or a Supplemental Financing, or both), the Lessor shall, without further act, effective on the date such Modification shall have been installed in Unit 2, acquire title to such undivided interest in such Modification; and

(iii) in the case of each Severable Modification, if the Lessor shall not have financed or arranged financing (in whole) of the Undivided Interest Percentage of the cost of such Modification (by an Additional Equity Investment or a Supplemental Financing, or both), the Lessee shall retain title to such undivided interest in such Modification; *provided, however,* that, if such Modification is required by the Operating Agreement or by Applicable Law or Governmental Action, the Lessor shall have the option, exercisable by irrevocable notice to the Lessee given not less than 90 days prior to the Lease Termination Date, to purchase such undivided interest in such Modification on the Lease Termination Date for cash at a price equal to the Fair Market Sales Value thereof, free and clear of all Liens (other than Liens described in clauses (i), (iii), (iv) (to the extent such Taxes are not due and payable), (vi), (vii) (to the extent such Liens are bonded), (viii) through (xiv) and (xvii) of the definition of "Permitted Liens").

Immediately upon title to such undivided interest in any Modification vesting in the Lessor pursuant to subparagraph (i) or subparagraph (ii) of this Section 8(d), such undivided interest in such Modification shall, without further act, become subject to this Lease and be deemed part of the Undivided Interest and of Unit 2 for all purposes hereof.

(e) *Funding of the Costs of Modifications.* The Lessee may request the Owner Participant to finance through the Lessor the Undivided Interest Percentage of the cost of any Nonseverable Modification and of any Severable Modification required by Applicable Law or Governmental Action, including or not including the making of an investment by the Owner Participant (an "*Additional Equity Investment*") and the issuance of one or more Additional Notes, all on terms acceptable to the Lessee and the Owner Participant. The Owner Participant shall consider any such request in good faith but shall not be under any obligation to comply therewith. If the Owner Participant does not, pursuant to the first sentence of this Section 8(e), finance the Undivided Interest Percentage of the cost of such Modification, the Lessee may request the Lessor to issue, and upon such request the Lessor shall execute such documents and instruments, in form and substance satisfactory to the Lessor, as shall have been provided to it by the Lessee, in order to effect the issuance, to one or more Persons (other than the Lessee or any Person affiliated with the Lessee within the meaning of Section 318 of the Code or any agent thereof), of one or more Additional Notes, and shall use the proceeds thereof to pay the Undivided Interest Percentage of the cost of such Modification, subject to fulfillment of the following conditions:

(i) there shall be no more than one Supplemental Financing in any calendar year;

(ii) the Lessee may include in any request for a Supplemental Financing only Modifications not previously financed in any Supplemental Financing;

(iii) the Additional Notes shall have a final maturity date no later than the date on which the Basic Lease Term is scheduled to expire;

(iv) in the opinion of Independent Tax Counsel, such Supplemental Financing shall not affect the status of this Lease as a "true lease" for Federal income tax purposes or cause any other material adverse Federal income tax consequences to the Owner Participant (other than consequences for which the Owner Participant would be indemnified by the Lessee pursuant to the terms of the Tax Indemnification Agreement or of another written undertaking by the Lessee to indemnify the Owner Participant);

(v) appropriate adjustments, if any, to the percentages for Basic Rent, Stipulated Loss Value and Termination Value shall have been agreed to by the Owner Participant and the Lessee in accordance with the adjustment provisions of Sections 3(d) and 3(e) to support the amortization of the Additional Notes issued in respect of such Supplemental Financing and to preserve the Owner Participant's Initial Theoretical Return;

(vi) the Lessee shall have paid to the Lessor an amount equal to all out-of-pocket costs and expenses reasonably incurred by the Lessor and the Owner Participant not financed as a part of such Supplemental Financing or reflected in adjustments to the percentages for Basic Rent;

(vii) the Lessee shall have entered into such agreements and shall have made or delivered such representations, warranties, covenants, provisions and other documents as the Owner Participant shall reasonably request;

(viii) such Supplemental Financing is permitted by the Indenture;

(ix) no Event of Default shall have occurred and be continuing;

(x) such Supplemental Financing is for an amount not less than the Undivided Interest Percentage of $25,000,000;

(xi) the Additional Notes shall be of Investment Grade Quality;

(xii) the Additional Notes shall not constitute recourse indebtedness to the Owner Participant as defined under then current generally accepted accounting principles for leveraged leases; and

(xiii) such Supplemental Financing shall not require the transaction effected pursuant to this Lease to be classified by the Owner Participant as other than a leveraged lease as defined under then current generally accepted accounting principles for leveraged leases if such classification would have a material adverse effect on the Owner Participant.

If the recording or filing of a supplement to the Indenture shall be required to subject to the lien and security interest of the Indenture any Severable Modification the Undivided Interest Percentage of the cost of which was financed in whole or in part with Additional Notes, then, within 30 days of the installation of such Severable Modification in Unit 2, the Lessee shall prepare and, after the execution and delivery thereof by the Lessor and the Indenture Trustee, record or file such supplement to the Indenture and such other instruments as may be necessary to confirm that title to an undivided interest equal to the Undivided Interest Percentage in such Severable Modification has become subject to the lien and security interest of the Indenture.

(f) *Removal of Property.* Subject to compliance with Applicable Law and so long as no Event of Default shall have occurred and be continuing, the Lessee may remove any Severable Modification and any other property to which the Lessee shall have title as provided in Section 8(d), *provided* that, as soon as practicable after the removal of any Severable Modification referred to in clause (ii) of the definition of such term, the Lessee, at its expense, shall repair any material damage to Unit 2 caused by such removal, and shall restore any material diminishment in the value, utility or useful life of Unit 2 caused by such removal. In addition, if at any time during the Lease Term the Lessee shall conclude that any property included in Unit 2 in respect of which the Lessor shall have title to an undivided interest is unnecessary and can be removed without material diminishment of the value or utility of Unit 2 or the Undivided Interest or material reduction of the useful life of Unit 2, the Lessee may remove such property and, upon such removal, without further act, title to the Lessor's undivided interest therein shall vest in the Lessee or in such Person as shall be designated by Lessee, free of the lien and security interest of the Indenture. If any Part is removed from Unit 2 for the purpose of replacement thereof with another Part, title to an undivided interest equal to the Undivided Interest Percentage in such removed Part shall remain the property of the Lessor, no matter where such removed Part is located, until such time as the Part constituting a replacement thereof shall have been incorporated into Unit 2, at which time, without further act, title to the Lessor's undivided interest in such removed Part shall vest in the Lessee or in such Person as shall be designated by the Lessee, free of the lien and security interest of the Indenture. Each such replacement Part shall be free and clear of all Liens (except Permitted Liens) and shall be in as good operating condition as, and shall have a value, utility and useful life at least equal to, that of the Part removed, it being assumed for purposes of this sentence that such removed Part was in the condition and state of repair required by Section 8(a).

(g) *Reports.* To the extent permissible under Applicable Law, the Lessee shall prepare (or cause to be prepared) and file in a timely fashion, or, if the Lessor shall be required to file, the Lessee shall prepare or cause to be prepared and deliver to the Lessor within a reasonable time prior to the date for filing, all reports with respect to the Undivided Interest, Unit 2 or the Common Facilities, or the condition or operation thereof, that shall be required to be filed with any Governmental Authority. On or before March 1 of each year (commencing March 1, 1991) and on the Lease Termination Date, the Lessee shall furnish to the Lessor a report stating the total cost of all Modifications and describing separately and in reasonable detail each Modification (or related group of Modifications) made during the period from the date hereof to December 31, 1990, in the case of the first such report, and during the period from the end of the period covered by the last previous report to the December 31 immediately preceding such report, in the case of subsequent reports.

(h) *Contest of Requirements of Law.* If, with respect to any requirement of Applicable Law or any Governmental Action relating to the use, operation or maintenance of Unit 2, the Unit 2 Site or the Common Facilities, (i) the Lessee is contesting diligently and in good faith by appropriate proceedings such requirement or Governmental Action, or (ii) compliance with such requirement or Governmental Action shall have been excused or exempted by a valid nonconforming use permit, waiver, extension or forbearance exempting the Lessee from such requirement or Governmental Action or (iii) the Lessee shall be making a good faith effort and shall be diligently taking appropriate steps to comply with such requirement or Governmental Action, then the failure by the Lessee to comply with such requirement or Governmental Action shall not constitute a Default hereunder *provided* that such contest or noncompliance does not involve (A) any danger of (1) foreclosure, forfeiture or loss of the Undivided Interest or (2) criminal liability being imposed on the Lessor, the Trust, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee or any Holder of a Note or (B) any substantial danger of (1) the sale of, or the creation of any Lien (other than a Permitted Lien) on, the Undivided Interest, (2) material civil liability being imposed on the Lessor, the Trust, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee or any Holder of a Note or (3) the extension of the ultimate imposition of such Applicable Law beyond the last day of the Lease Term. The Lessee shall provide the Lessor with notice of any contest of the type described in clause (i) above in detail sufficient to enable the Lessor to ascertain whether such contest may have any material adverse effect of the type described in the above proviso.

SECTION 9. Event of Loss; Deemed Loss Event.

(a) *Damage or Loss.* If an Event of Loss shall occur, or if any substantial part of Unit 2 shall suffer damage, loss, condemnation, confiscation, theft or seizure that does not constitute an Event of Loss, the Lessee shall promptly, and in any case within 10 days after such event, so notify the Lessor.

(b) *Repair.* If Unit 2 or any part thereof shall suffer damage that does not constitute an Event of Loss, the Lessee shall cause the Operator to make such repairs as are necessary to ensure that Unit 2 is maintained in the condition and state of repair required under Section 8(a).

(c) *Event of Loss; Payment of Stipulated Loss Value.* If an Event of Loss shall occur, the Lessee shall pay to the Lessor the Stipulated Loss Value determined as of the Basic Rent Payment Date next succeeding the occurrence of such Event of Loss (or, if the Event of Loss occurred on a Basic Rent Payment Date, determined as of such date). From the date of the Event of Loss to and including the date of payment of such Stipulated Loss Value, all Rent shall continue to be paid when due. Such Stipulated Loss Value shall be paid on the Basic Rent Payment Date next succeeding the occurrence of the Event of Loss, unless the Event of Loss shall have occurred less than 90 days prior to such Basic Rent Payment Date, in which case such Stipulated Loss Value, together with (1) an amount equal to all accrued and unpaid interest on the Outstanding Notes plus (2) interest at the rate of 1% above the Prime Rate on that portion of such Stipulated Loss Value which exceeds the principal amount of the Notes Outstanding at the date of payment, in each case for a period from and including such Basic Rent Payment Date to but excluding the date of payment, shall be paid not later than the ninetieth day after the date of such occurrence. The Lessee shall pay, simultaneously with such payment of such Stipulated Loss Value and such interest (if any), any and all Rent due through and including the date of such payment, whereupon (a) the Lease Term shall end and the obligations of the Lessee hereunder (other than any obligation expressed herein as surviving termination of this Lease) shall cease as of the date of such payment and (b) the Lessor shall effect a Transfer to the Lessee or as the Lessee shall direct.

(d) *Deemed Loss Event; Payment of Termination Value.* If events giving rise to a Deemed Loss Event shall occur, the party hereto having knowledge thereof shall promptly so notify the other party. Following the occurrence of a Deemed Loss Event, the Lessor may demand, by notice to the Lessee, that the Lessee pay, and, on the date specified in such notice (which date shall be no earlier than the thirtieth day following such notice), the Lessee shall pay to the Lessor the Termination Value determined as of the Basic Rent Payment Date next succeeding the date specified for such payment (or, if the date specified for payment is a Basic Rent Payment Date, determined as of such date). From the date of the Lessor's notice to and including the date of payment of such Termination Value, all Rent shall continue to be paid when due. The Lessee shall pay, simultaneously with such payment of such Termination Value, any and all Rent due through and including the date of such payment, together with an amount equal to the premium, if any, payable with respect to the prepayment of the Notes Outstanding, whereupon (a) the Lease Term shall end and the obligations of Lessee hereunder (other than any obligation expressed herein as surviving termination of this Lease) shall cease as of the date of such payment and (b) Lessor shall effect a Transfer to the Lessee or as the Lessee shall direct.

(e) *Requisition of Use.* In the case of a Requisition of Use not constituting an Event of Loss, this Lease shall continue, and each and every obligation of the Lessee hereunder and under each Transaction Document shall remain, in full force and effect. The Lessee shall be entitled to all sums received by reason of any such Requisition of Use for the period ending on the Lease Termination Date, and the Lessor shall be entitled to all sums received by reason of any such Requisition of Use in respect of the Undivided Interest for the period after the Lease Termination Date.

(f) *Termination of Lease Term.* Upon a Transfer by the Lessor to the Lessee pursuant to Section 9(c) or 9(d) and the payment of the amounts specified in the Indenture, the Notes and this Lease, the Lease Term shall end without further act on the part of the Lessor or the Lessee and all the Lessee's obligations hereunder (other than any obligation expressed herein as surviving termination of this Lease) shall cease. In all other cases set forth in this Section 9, the Lease Term shall continue and this Lease shall remain in full force and effect.

(g) *Application of Payments on an Event of Loss.* Payments received by the Lessor (other than proceeds of insurance carried by the Lessor or the Owner Participant pursuant to Section 10(b)) or the Lessee (other than proceeds of insurance carried by or on behalf of the Lessee pursuant to Section 10(b)) from any Governmental Authority, insurer or other Person as a result of an Event of Loss shall be applied as follows:

(i) all such payments shall be promptly paid to the Lessor for application pursuant to the following provisions of this Section 9(g), except that the Lessee may retain any amounts that at the time would be payable to the Lessee as reimbursement under the provisions of clause (ii) below;

(ii) so much of such payments (applying any payments from Persons other than Governmental Authorities before any payments from Governmental Authorities) as shall not exceed the amount required to be paid by the Lessee pursuant to Section 9(c) shall be applied in reduction of the Lessee's obligation to pay such amount if the same has not already been paid by the Lessee or, if the same has already been paid by the Lessee, shall be applied to reimburse the Lessee for its payment of such amount;

(iii) the balance, if any, of such payments (other than payments from Governmental Authorities as a result of a Requisition of Use or Requisition of Title) shall be paid over to, or retained by, the Lessee; and

(iv) the balance, if any, of such payments from Governmental Authorities as a result of a Requisition of Use or Requisition of Title shall be paid as follows: (A) to the Lessee, an amount equal to such balance multiplied by a fraction, the numerator of which shall be the number of days remaining in the Basic Lease Term or the then effective Renewal Term as of the date of the occurrence of the Event of Loss and the denominator of which shall be the number of days remaining in the Ground Lease Term as of such date, and (B) to the Lessor, an amount equal to the remainder of such balance.

(h) *Application of Payments Not Relating to an Event of Loss.* Payments received by the Lessor (other than proceeds of insurance carried by the Lessor or the Owner Participant pursuant to Section 10(b)) or by the Lessee (other than proceeds of insurance carried by or on behalf of the Lessee pursuant to Section 10(b)) from any Governmental Authority, insurer or other Person with respect to any event giving rise to payment of an amount referred to in the second sentence of Section 6(c), or with respect to any destruction, damage, loss, condemnation, confiscation, theft, seizure of or requisition of title to Unit 2, the Undivided Interest or any part thereof, in each case not constituting an Event of Loss, shall be applied as follows:

(i) so much of such payments (applying any payments from Persons other than Governmental Authorities before any payments from Governmental Authorities) as shall be necessary to reimburse the Lessee for all amounts expended by it pursuant to Section 9(b) shall be paid over to, or retained by, the Lessee;

(ii) the balance, if any, of such payments (other than payments from Governmental Authorities as a result of a condemnation, seizure or requisition of title to Unit 2, the Undivided Interest or any part thereof) shall be paid over to, or retained by, the Lessee; and

(iii) the balance, if any, of such payments from Governmental Authorities as a result of a condemnation, seizure or requisition of title to Unit 2, the Undivided Interest or any part thereof shall be paid to the Lessor and the Lessee in proportion to the loss suffered by each.

(i) *Application During Event of Default.* Notwithstanding the foregoing provisions of this Section 9, if an Event of Default shall have occurred and be continuing, any amount that would otherwise be payable to or for the account of, or that would otherwise be retained by, the Lessee pursuant to Section 10 or this Section 9 shall be paid to the Lessor as security for the obligations of the Lessee under this Lease and, at such time thereafter as either no Event of Default shall be continuing or (except in the case of an Event of Default specified in Section 15(a), 15(b) or 15(e)) such amount shall have been so retained for a period of 180 days, such amount shall be paid promptly to the Lessee unless the Lessor shall then be precluded by law or court order from pursuing remedies under Section 16, in which event, subject to compliance with Applicable Law, such amount shall be disposed of in accordance with the provisions of this Lease, the Indenture and the Trust Agreement.

SECTION 10. Insurance.

(a) *Required insurance.* (i) The Lessee shall carry and maintain, or cause to be carried and maintained, at least the following insurance coverage, in each case with insurers of recognized responsibility:

(A) "all risk" property insurance covering physical loss with respect to Unit 2 in such amounts and with such other terms as are in accordance with general insurance standards prevalent in the utility industry and are comparable to the "all risk" property insurance covering physical loss that is carried with respect to Unit 1 and the other 1300-megawatt coal-fired electric generating units owned and operated by subsidiaries of AEP, endorsed to provide that (1) losses shall be adjusted as provided in Section 10(a)(iii), (2) the Lessor and the Owner Participant (the "*Additional Insureds*") are included as additional insureds, as their interests may appear, but shall not be liable for the payment of premiums, (3) any payment thereunder for loss or damage shall be made to the Indenture Trustee so long as the Indenture is in effect, and otherwise to the Lessor, except that payments of less than $10,000,000 made in respect of any single casualty or other occurrence with respect to Unit 2 shall be paid solely to the Lessee, (4) the insurer thereunder waives all rights to subrogation against the Additional Insureds with respect to their respective interests in Unit 2, and (5) such insurance shall be primary without right of contribution of any other insurance carried by or on behalf of any Additional Insured with respect to its interest in Unit 2; and

(B) bodily injury and property damage liability insurance (including product liability, completed operations and personal injury insurance) covering claims arising out of the ownership, operation, maintenance, condition or use of Unit 2, the Common Facilities or the Rockport Plant Site in such amounts and with such other terms as are in accordance with Prudent Utility Practice and are comparable to the bodily injury and property damage liability insurance which is carried with respect to Unit 1 and the other 1300-megawatt coal-fired electric generating units owned and operated by subsidiaries of AEP (but the Lessee shall not be obligated to maintain such insurance in an amount greater than $20,000,000 "single-limit" coverage), endorsed as provided in clauses (2), (3) and (4) of Section 10(a)(i)(A), except that the term "Additional Insureds" wherever it appears shall be deemed to include the Lessor, the Owner Participant and all Indemnitees.

(ii) On or prior to September 1 of each year commencing September 1, 1991, the Lessee shall furnish the Lessor: (A) a report signed by the Operator that includes a copy of the certificate of insurance signed by the insurer (which certificate shall indicate that all endorsements required under Section 10(a) are applicable), describing in detail the insurance then maintained pursuant to this Section 10 and stating that no premiums are then delinquent; and (B) a certificate signed by a Responsible Officer of the Lessee stating that such insurance is in accordance with this Section 10.

(iii) All losses shall be adjusted with the insurance companies and all insurance proceeds shall be collected, including by the filing of appropriate proceedings, by or on behalf of the Lessee, and all insurance proceeds paid in respect of insurance maintained pursuant to Section 10(a) shall be applied as provided in Section 9(g), (h) or (i), as the case may be, *subject, however,* to any priority allocations of such proceeds as set forth in the insurance policies or as required under Applicable Law.

(iv) Provided that such endorsements are reasonably available in the commercial insurance market, the Lessee shall obtain endorsements to the insurance policies carried pursuant to Section 10(a)(i) providing that (x) the respective interests of the Additional Insureds shall not be invalidated by any act or neglect by any Rockport Plant Company, including breach of any warranty contained in such policies, (y) no lapse, cancellation or material change with respect to such policies shall be effective as to an Additional Insured until at least 30 days after receipt by such Additional Insured of written notice thereof and (z) the coverage afforded by such policies shall not be affected by the performance of any work in or about any Modification.

(b) *Other Insurance.* Nothing in this Section 10 shall prohibit the Lessee from maintaining at its expense insurance on or with respect to Unit 2, the Common Facilities or the Rockport Plant Site or with respect to the cost of purchasing replacement power, naming the Lessee as insured and/or loss payee, unless such insurance would conflict with or otherwise limit the availability of insurance required to be maintained under Section 10(a). Nothing in this Section 10 shall prohibit the Lessor or the Owner Participant from maintaining at its expense other insurance on or with respect to the Undivided Interest, Unit 2, the Unit 2 Site or the operation of Unit 2, naming the Lessor or the Owner Participant as insured and/or loss payee, unless such insurance would conflict with or otherwise limit the insurance required to be maintained under Section 10(a).

SECTION 11. **Rights to Assign or Sublease.**

(a) *Assignment or Sublease by the Lessee.* Upon 15 days' prior written notice to the Lessor, the Lessee may assign its right, title and interest in and to this Lease or sublease the Undivided Interest and the Unit 2 Site Interest to any Person, *provided* that such assignment or sublease shall be expressly subject and subordinate to this Lease and shall not release AEP Generating Company from any of its obligations as the Lessee hereunder or from any of its obligations under any of the other Transaction Documents.

(b) *Assignment by Lessor as Security for Lessor's Obligations.* To secure the indebtedness evidenced by the Notes, the Lessor will assign to the Indenture Trustee (i) its right, title and interest (excluding any Excepted Rights) in and to this Lease, including the right to receive certain payments of Rent (excluding any Excepted Payments), to the extent provided in the Indenture, and (ii) its right, title and interest in and to the Undivided Interest and the Unit 2 Site Interest. The Lessee hereby (w) consents to such assignment and to the terms of the Indenture, (x) agrees to pay directly to the Indenture Trustee at the Indenture Trustee's Office (until the lien and security interest of the Indenture shall have been discharged) all amounts of Rent (other than Excepted Payments) due or to become due to the Lessor, (y) agrees that the right of the Indenture Trustee to any such payments shall be absolute and unconditional and shall not be affected by any circumstances whatsoever, including, without limitation, those circumstances set forth in Section 4 and (z) agrees that, to the extent provided in the Indenture (until the lien and security interest of the Indenture shall have been discharged), the Indenture Trustee shall have all the rights of the Lessor hereunder (other than Excepted Rights and the right to receive Excepted Payments) and shall be subject to all the obligations of the Lessor hereunder (including, without limitation, the obligations of the Lessor set forth in Section 6(a)) as if the Indenture Trustee had originally been named herein as the Lessor. Following any transfer to, or purchase by, the Lessee of the Undivided Interest, the Undivided Interest shall (unless the Notes shall have been paid in full) remain subject to the lien and security interest of the Indenture and such lien and security interest shall not be impaired in consequence thereof.

SECTION 12. **Lease Renewal.**

(a) *Fixed Rate Renewal Option.* Subject to the notice requirement set forth in Section 13(a) and to the provisions of Section 13(c), the Lessee shall have the option to renew the term of this Lease at the end of the Basic Lease Term for one period of at least one year as determined by the Lessee and specified in its notice of renewal (the "*Fixed Rate Renewal Term*"), *provided* that (i) the Lessee, at the time of the exercise of this renewal option, shall have furnished an appraisal of an independent appraiser selected by the Lessee and reasonably acceptable to the Owner Participant as to the useful life of Unit 2, which appraisal shall indicate that, at the end of the proposed Fixed Rate Renewal Term, the residual value of the Undivided Interest will be equal to at least 20% of the Lessor's Cost for the Undivided Interest (without taking into account inflation or deflation that has occurred or will have occurred from the Closing Date to the end of the proposed Fixed Rate Renewal Term), and (ii) the proposed Fixed Rate Renewal Term does not extend the Lease Term beyond 80% of the economic useful life of Unit 2 as established by such appraisal. During the Fixed Rate Renewal Term, the Lessee shall pay to the Lessor the Fixed Rate Renewal Basic Rent in semiannual installments in arrears on each Basic Rent Payment Date during such Renewal Term.

(b) *Fair Market Renewal Options.* Subject to the notice requirement set forth in Section 13(a) or 13(b), as the case may be, and to the provisions of Section 13(c), the Lessee shall have the option to renew the term of this Lease at the end of the Basic Lease Term or any Renewal Term, as the case may be, for a period of three or more years as determined by the Lessee and specified in its notice of renewal (each such period being herein called a "*Fair Market Renewal Term*"), *provided* that the aggregate of all Fair Market Renewal Terms shall not result in the Lease Term extending beyond the term of the Ground Lease. During each Fair Market Renewal Term, the Lessee shall pay to the Lessor the Fair Market Rental Value of the Undivided Interest in semiannual installments in arrears on each Basic Rent Payment Date during such Renewal Term.

SECTION 13. Notices for Renewal; Determination of Fair Market Value.

(a) *Expiration of Basic Lease Term.* Not later than 18 months prior to the expiration date of the Basic Lease Term, the Lessee shall give to the Lessor notice of its election (i) to return the Undivided Interest to the Lessor pursuant to Section 5 or (ii) to exercise an option to renew this Lease for a Fair Market Renewal Term pursuant to Section 12(b) or (iii) to exercise the option to renew this Lease for the Fixed Rate Renewal Term pursuant to Section 12(a) (in which case such notice shall not be given earlier than 60 months prior to the expiration date of the Basic Lease Term).

(b) *Expiration of Renewal Terms.* Not later than 18 months prior to the expiration date of any Renewal Term, the Lessee shall give to the Lessor notice of its election (i) to return the Undivided Interest to the Lessor pursuant to Section 5 or (ii) to exercise an option to renew this Lease for a Fair Market Renewal Term pursuant to Section 12(b).

(c) *Elections Irrevocable.* Any election made by the Lessee pursuant to Section 13(a) or 13(b) shall be irrevocable by the Lessee, and such election shall be binding on the Lessor unless, on the effective date thereof, an Event of Default shall have occurred and be continuing.

(d) *Determination of Fair Market Value.* If the Lessee shall give to the Lessor notice of its election to renew this Lease pursuant to Section 12(b), then, not later than six months prior to the expiration date of the Basic Lease Term or of the then current Renewal Term, as the case may be, the Lessee and the Lessor shall agree on the Fair Market Rental Value and the Fair Market Sales Value of the Undivided Interest during such Renewal Term. If the Lessee and the Lessor are unable to agree upon such Fair Market Rental Value or Fair Market Sales Value, such Value shall be determined by the Appraisal Procedure.

(e) *Assistance with Disposition.* If the Lessee shall have elected not to renew the term of this Lease at the expiration of the Basic Lease Term or any Renewal Term, then, upon the request and at the expense of the Lessor, the Lessee shall provide reasonable assistance to and cooperate with the Lessor in arranging for the use, lease or other disposition of the Undivided Interest and the Unit 2 Site Interest, and shall cooperate with the Lessor in its efforts to obtain any necessary Governmental Action or consent of any other Person.

SECTION 14. Obsolescence Termination.

(a) *Termination Notices.* If the Lessee shall have determined that Unit 2 is economically obsolete (including, without limitation, by reason of the amount of expenditures required to comply with Section 8) or surplus to the needs of the Lessee, the Lessee shall have the option to terminate this Lease on any Basic Rent Payment Date occurring on or after the tenth anniversary of the Closing Date that is specified by the Lessee (a "*Termination Date*") in a notice to the Lessor (a "*Termination Notice*") given not later than six months prior to the proposed Termination Date and accompanied by a certified resolution of the Board of Directors of the Lessee evidencing such determination, *provided* that no Event of Default under Section 15(a) or 15(e) shall have occurred and be continuing on the date that the Lessee gives such Termination Notice. If the Lessee shall have given the Lessor a Termination Notice, the Lessee, as agent for the Lessor, shall use its best efforts to obtain cash bids for the purchase of the Undivided Interest. The Lessor also shall have the right to obtain or make such cash bids, either directly or through agents other than the Lessee. The Lessee shall certify to the Lessor the amount and terms of each bid received by the Lessee and the name and address of the Person (who shall not be the Lessee or any Tax Affiliate of the Lessee) that submitted such bid.

(b) ***Events on Termination Date.*** On the Termination Date the Lessor shall (but only upon receipt of the sale price and all additional payments specified in the next sentence) effect a Transfer for cash to the Person that submitted the highest bid prior to such date. The Sale Proceeds shall be retained by the Lessor (subject, however, to the provisions of the Indenture, including the requirement that on such Termination Date there shall have been paid to the Indenture Trustee an amount sufficient to pay in full the unpaid principal amount of all Notes Outstanding on the Obsolescence Redemption Date and all premium, if any, and interest accrued and unpaid on such Outstanding Notes as of such Termination Date and to accrue on the Outstanding Notes from such date to the Obsolescence Redemption Date) and, in addition, on such Termination Date the Lessee shall pay to the Lessor (or, in the case of Supplemental Rent, to the Person or Persons entitled thereto) (i) an amount equal to the excess, if any, of the Termination Value, determined as of such Termination Date, over the Sale Proceeds, (ii) any Basic Rent due on such Termination Date, (iii) an amount equal to any premium payable on the Outstanding Notes as of the Obsolescence Redemption Date and any interest to accrue on the Outstanding Notes from and including such Termination Date to the Obsolescence Redemption Date, and (iv) all Supplemental Rent (other than Termination Value). If for any reason (other than default by the Lessee) no sale of the Undivided Interest shall occur on or as of the Termination Date, then on such date the Lessee may, but shall not be obligated to, pay to the Lessor the Termination Value as of such date and make the payments referred to in clauses (ii), (iii) and (iv) of the next preceding sentence (whereupon the Lessor shall effect a Transfer to the Lessee), and if the Lessee does not make such payments this Lease shall continue in full force and effect in accordance with its terms (including the terms of this Section 14). Upon payment by the Lessee of all amounts payable by it under this Section 14(b), the Lease Term shall end and all the Lessee's obligations hereunder (other than any obligation expressed herein as surviving termination of this Lease) shall cease. The Lessee hereby represents, warrants and covenants that, if the Lease Term shall end pursuant to the provisions of this Section 14, neither the Lessee nor any then current Tax Affiliate of the Lessee shall thereafter use or operate Unit 2 or any part thereof. The Lessor shall be under no duty to solicit bids, to inquire into the efforts of the Lessee to obtain bids or otherwise to take any action in connection with any such proposed termination of the Lease other than to effect a Transfer to the Person named in the highest bid certified by the Lessee to the Lessor or obtained by the Lessor (or to the Lessee if no sale shall have occurred on or as of the Termination Date but the Lessee shall have made the payments referred to in the third preceding sentence) against receipt of the payments provided for herein.

SECTION 15. Events of Default.

The term "Event of Default", wherever used herein, shall mean any of the following events (whatever the reason for such event and whether it shall be voluntary or involuntary, or come about or be effected by operation of law, or be pursuant to or in compliance with any Applicable Law or Governmental Action), and any such event shall continue to be an Event of Default if and for so long as it shall not have been remedied:

(a) the Lessee shall fail to make, or cause to be made, (i) any payment of Basic Rent, Stipulated Loss Value or Termination Value within seven Business Days after the same shall become due or (ii) any payment of Supplemental Rent (other than Stipulated Loss Value or Termination Value) within 30 days after the same shall become due; or

(b) (i) the Lessee shall fail to perform its agreements set forth in Section 5, or (ii) the Lessee shall fail to carry or maintain any insurance required under Section 10(a)(i), and such failure shall continue until the fifth day before the end of the period during which, under the terms of the applicable policy, the lapse or cancellation of such policy is not effective as to the Lessor and the Owner Participant, or

(c) the Lessee shall fail to perform or observe any covenant or agreement (other than those referred to in clauses (a) and (b) above) to be performed or observed by it under this Lease or any other Transaction Document to which it is a party, and such failure shall continue, after the Lessee shall have been given a notice specifying such failure and requiring it to be remedied, for a period of 30 days (or such longer period, not to exceed 365 days or to extend beyond the last day of the Lease Term, as may be necessary to remedy any such failure that cannot be remedied within such 30-day period, so long as the Lessee is diligently proceeding to remedy such failure); or

(d) any representation or warranty made by the Lessee in this Lease or in any other Transaction Document (other than the Tax Indemnification Agreement) shall prove to have been incorrect in any material respect when such representation or warranty was made and shall remain material and materially incorrect at the time in question, unless either (i) the incorrectness of such representation or warranty does not materially adversely affect the Lessor, the Owner Participant, the Indenture Trustee, the Collateral Trust Trustee or the Holders of the Notes, or (ii) the fact, circumstance or condition that is the subject of such representation or warranty is made true within 30 days after notice thereof shall have been given by Lessor to Lessee; or

(e) the Lessee or AEP shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect, or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking of possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall take any corporate action to authorize any of the foregoing; or an involuntary case or other proceeding shall be commenced against the Lessee or AEP seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed or unstayed for a period of 60 consecutive days; or

(f) the Ground Lease shall not be, or shall cease to be, the legal, valid and binding obligation of the Ground Lessor thereunder; or

(g) the Capital Funds Agreement shall not be, or shall cease to be, in whole or in part the legal, valid and binding obligation of AEP; or AEP shall fail to supply or to cause to be supplied to the Lessee any amount of capital which AEP shall be obligated to supply to the Lessee pursuant to Section 1.4 of the Capital Funds Agreement.

SECTION 16. Remedies.

(a) *Remedies.* Upon the occurrence of any Event of Default and at any time thereafter so long as the same shall be continuing the Lessor at its option may, by notice to the Lessee, declare this Lease to be in default; and at any time thereafter (unless all Events of Default shall have been remedied) the Lessor may, to the extent permitted by Applicable Law, exercise one or more of the following remedies, except as hereinbelow expressly otherwise set forth, as the Lessor in its sole discretion shall elect:

(i) the Lessor may (x) demand that the Lessee, and thereupon the Lessee shall, at the Lessee's expense, return possession of the Undivided Interest promptly to the Lessor in the manner and condition required by, and otherwise in accordance with the provisions of, Section 5, and (y) take all action required to enable the Lessor to, and thereafter, enter upon the Rockport Plant Site and take possession (to the exclusion of the Lessee) of the Undivided Interest, all without liability to the Lessee for or by reason of such entry or taking of possession, whether for the restoration of damage to property caused by such taking or otherwise;

(ii) the Lessor may sell the Undivided Interest or any part thereof, together with any interest of the Lessor under the Bill of Sale, the Ground Lease and the Unit 2 Operating Agreement, at public or private sale, as the Lessor may determine, free and clear of any rights of the Lessee therein and without any duty to account to the Lessee with respect to such sale or for the proceeds thereof (except to the extent required by clause (iv) or (v) below if the Lessor shall elect to exercise its rights thereunder), in which event the Lessee's obligation to pay Basic Rent with respect to the Undivided Interest or the part thereof that has been sold, as the case may be, for periods commencing after the date of such sale shall terminate (except to the extent that Basic Rent is to be included in computations under clause (iv) or (v) below if the Lessor shall elect to exercise its rights thereunder);

(iii) the Lessor may hold, keep idle or lease to others the Undivided Interest or any part thereof, as the Lessor in its discretion may determine, free and clear of any rights of the Lessee therein and without any duty to account to the Lessee with respect to such action or inaction or any proceeds with respect thereto, except that the Lessee's obligation to pay Basic Rent for periods commencing after the Lessee shall have been deprived of use of the Undivided Interest pursuant to this clause (iii) shall be reduced by an amount equal to the net proceeds, if any, received by the Lessor from leasing the Undivided Interest to any Person other than the Lessee for the same periods or any portion thereof;

(iv) the Lessor may, whether or not the Lessor shall have exercised or shall thereafter at any time exercise its rights under clause (i), (ii) or (iii) above, by notice to the Lessee specifying a payment date (which shall be a Basic Rent Payment Date not earlier than 30 days nor later than 180 days after the date of such notice), demand that the Lessee pay to the Lessor, and the Lessee shall pay to the Lessor, on the Basic Rent Payment Date specified in such notice, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Rent due after the Basic Rent Payment Date specified in such notice), any unpaid Rent due as of the Basic Rent Payment Date specified in such notice plus whichever of the following amounts the Lessor, in its sole discretion, shall specify in such notice (together with interest on such amount at the interest rate specified in Section 3(b)(iii) from the Basic Rent Payment Date specified in such notice to the date of actual payment):

(A) an amount equal to the excess, if any, of (1) Stipulated Loss Value, computed as of the Basic Rent Payment Date specified in such notice, over (2) the Fair Market Rental Value of the Undivided Interest (determined on the basis of the then actual condition of Unit 2) for the remainder of the Lease Term after discounting such Fair Market Rental Value semiannually to present value as of the Basic Rent Payment Date specified in such notice at the Discount Rate; or

(B) an amount equal to the excess, if any, of (1) such Stipulated Loss Value over (2) the Fair Market Sales Value of the Undivided Interest (determined on the basis of the then actual condition of Unit 2) as of the Basic Rent Payment Date specified in such notice; or

(C) an amount equal to the excess, if any, of (1) the present value as of the Basic Rent Payment Date specified in such notice of all installments of Basic Rent until the end of the Basic Lease Term or the then current Renewal Term, as the case may be, discounted semiannually at the Discount Rate, over (2) the present value as of such Basic Rent Payment Date of the Fair Market Rental Value of the Undivided Interest (determined on the basis of the then actual condition of Unit 2) until the end of the Basic Lease Term or such Renewal Term, as the case may be, discounted semiannually at the Discount Rate; or

(D) an amount equal to the higher of such Stipulated Loss Value or the Fair Market Sales Value of the Undivided Interest as of the Basic Rent Payment Date specified in such notice and, in this event, upon payment by the Lessee of all amounts payable by it hereunder and under the other Transaction Documents, the Lessor shall effect a Transfer to the Lessee and the Lease Term shall end and all the Lessee's obligations hereunder shall cease;

(v) if the Lessor shall have sold all the Undivided Interest pursuant to clause (ii) above, the Lessor, if it shall so elect in lieu of exercising its rights under clause (iv) above with respect to the Undivided Interest, by notice to the Lessee may demand that the Lessee pay to the Lessor, and the Lessee shall pay to the Lessor, on the date of such sale, as liquidated damages for loss of a bargain and not as a penalty (in lieu of Basic Rent due for periods commencing after the next Basic Rent Payment Date following the date of such sale), any unpaid Rent due as of the next Basic Rent Payment Date following the date of such sale, plus the amount of any deficiency between the Sale Proceeds and Stipulated Loss Value, computed as of such Basic Rent Payment Date, together with interest at the interest rate specified in Section 3(b)(iii) on the amount of such Rent and such deficiency from the date of such sale until the date of actual payment; or

(vi) the Lessor may rescind or terminate this Lease or may exercise any other right or remedy that may be available to it under Applicable Law or proceed by appropriate court action to enforce the terms hereof or to recover damages for the breach hereof.

(b) *No Release.* Except as provided in Section 16(a), no rescission or termination of this Lease, in whole or in part, or repossession of the Undivided Interest or exercise of any remedy under Section 16(a) shall relieve the Lessee of any of its obligations under this Lease. In addition, except as aforesaid, the Lessee shall be liable for any and all unpaid Rent due hereunder before, after or during the exercise of any of the foregoing remedies, including all reasonable legal fees and other costs and expenses incurred by the Lessor by reason of the occurrence of any Event of Default or the exercise of the Lessor's remedies with respect thereto. At any sale of the Undivided Interest or any part thereof pursuant to this Section 16, the Owner Participant, the Lessor or the Indenture Trustee may bid for and purchase such property.

(c) *Remedies Cumulative.* Except as expressly set forth therein, no remedy under Section 16(a) is intended to be exclusive, but each shall be cumulative and in addition to any other remedy provided thereunder or otherwise available to the Lessor at law or in equity. No express or implied waiver by the Lessor of any Default or Event of Default hereunder shall in any way be, or be construed to be, a waiver of any future or subsequent Default or Event of Default. The failure or delay of the Lessor in exercising any right granted it hereunder upon any occurrence of any of the contingencies set forth herein shall not constitute a waiver of any such right upon the continuation or recurrence of any such contingency or similar contingencies and any single or partial exercise of any particular right by the Lessor shall not exhaust the same or constitute a waiver of any other right provided herein. To the extent permitted by Applicable Law, the Lessee hereby waives any rights now or hereafter conferred by statute or otherwise that may require the Lessor to sell, lease or otherwise use the Undivided Interest in mitigation of the Lessor's damages as set forth in paragraph (a) of this Section 16 or that may otherwise limit or modify any of the Lessor's rights and remedies provided in this Section 16.

(d) *Allocation of Basic Rent.* If for the purpose of Section 16(a)(ii) it shall become necessary to allocate a portion of the Basic Rent payable hereunder to any part of the Undivided Interest, such allocation shall be in the same proportion as the original cost of such part bears to Lessor's Cost.

SECTION 17. **Notices.** All communications, declarations, demands and notices provided for in this Lease shall be in writing and shall be given in person or by means of telex, telecopy, or other wire transmission, or mailed by registered or certified mail, or sent by courier, addressed as provided in the Participation Agreement. All such communications, declarations, demands and notices given in such manner shall be effective on the date of receipt.

SECTION 18. **Successors and Assigns.** This Lease, including all agreements, covenants, indemnities, representations and warranties contained herein, shall be binding upon and inure to the benefit of the Lessor and the Lessee and their respective successors and permitted assigns.

SECTION 19. **Right to Perform for Lessee.** If an Event of Default shall have occurred and be continuing, the Owner Participant or the Lessor may, but shall not be obligated to, to the extent not prohibited by Applicable Law, itself make any such payment or perform or comply with any such agreement as the Lessee shall be obligated to pay, perform or comply with under this Lease, and the amount of such payment and the amount of the reasonable expenses of the Owner Participant or the Lessor incurred in connection with such payment or the performance or compliance with such agreement, as the case may be, together with interest thereon at the Penalty Rate, shall be deemed

Supplemental Rent, payable by the Lessee upon demand. The Owner Participant or the Lessor shall give the Lessee at least 10 Business Days' notice before taking any action in accordance with the preceding sentence, provided that the failure to give such notice shall have no effect upon any of the rights of the Owner Participant or the Lessor thereunder.

SECTION 20. **Additional Covenants.** The Lessee agrees to pay as Supplemental Rent all amounts payable by it under the provisions of Article VII of the Participation Agreement and under the provisions of the Tax Indemnification Agreement, which provisions are incorporated herein by this reference as fully as if set forth in full at this place. The Lessee agrees to comply with its covenants and agreements set forth in Section 6.01 of the Participation Agreement and Section 7 of the Ground Lease, which covenants and agreements are incorporated herein by this reference as fully as if set forth in full at this place. The Lessee further agrees, during the Lease Term, to perform all covenants and obligations imposed by the Ground Lease upon the Ground Lessee directly for the benefit of the Lessor.

SECTION 21. **Amendments and Miscellaneous.**

(a) *Amendments in Writing.* The provisions of this Lease may not be waived, altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by the Lessor and the Lessee. It is understood and agreed by the parties hereto that any waiver, alteration, modification, amendment, supplement or termination of this Lease that requires the consent of the Indenture Trustee or the Holders of all the Notes (in each case as provided in Section 10.02 of the Indenture) shall not be effective unless and until such consent shall have been obtained as provided in accordance with the provisions of said Section 10.02.

(b) *Survival.* (i) All indemnities, representations and warranties contained or incorporated by reference in this Lease shall survive, and shall continue in effect following, the execution and delivery of this Lease and the expiration or termination of this Lease.

(ii) The obligations of the Lessee to pay Supplemental Rent and the obligations of the Lessee under Sections 5, 13(e), 16, 19 and 20 shall survive the expiration or termination of this Lease; *provided, however,* that, after the expiration or termination of this Lease, the Lessor shall not have any right or be entitled to any remedy in respect of the Lessee's failure to perform its obligations under Section 13(e), 19 or 20 except the right to institute an action seeking specific performance and/or recovery of actual damages. The extension of any applicable statute of limitations by the Lessor, the Indenture Trustee, the Lessee, the Owner Participant, any Holder of a Note or any Indemnitee shall not affect such survival. The obligations of the Lessee under Section 20 are expressly made for the benefit of, and shall be enforceable by, the Indemnitees, separately or together, without declaring this Lease to be in default and notwithstanding any assignment by the Lessor of this Lease or any of its rights thereunder or any disposition of all or any part of any interest in the Undivided Interest or any other property referred to in this Lease or any other Transaction Document or Financing Document. All payments required to be made pursuant to Section 20 shall be made directly to, or as otherwise requested by, the Indemnitee entitled thereto upon written demand by such Indemnitee.

(iii) The obligations of the Lessor under Sections 6(a), 9 and 13(e) shall survive the expiration of this Lease.

(c) *Severability of Provisions.* Any provision of this Lease that may be determined by competent authority to be prohibited or unenforceable in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by Applicable Law, the Lessee hereby waives any provision of law that renders any provision hereof prohibited or unenforceable in any respect.

(d) *True Lease.* This Lease is intended as, and shall constitute, an agreement of lease, and nothing herein shall be construed as conveying to the Lessee any right, title or interest in or to the Undivided Interest except as a lessee.

(e) *Original Lease.* The single executed original of this Lease marked "THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART" on the front cover and containing the receipt of the Indenture Trustee therefor on or following the signature page thereof shall be the "Original Executed Counterpart" of this Lease. To the extent that this Lease constitutes chattel paper, as such term is defined in the Uniform Commercial Code as in effect in any applicable jurisdiction, no security interest in this Lease may be created through the transfer or possession of any counterpart other than the "Original Executed Counterpart".

(f) *GOVERNING LAW.* THIS LEASE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK, EXCEPT AS TO MATTERS RELATING TO THE CREATION OF THE LEASEHOLD AND SUBLEASEHOLD ESTATES HEREUNDER AND THE EXERCISE OF RIGHTS AND REMEDIES WITH RESPECT TO SUCH LEASEHOLD AND SUBLEASEHOLD ESTATES, WHICH SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF INDIANA.

(g) *Headings.* The division of this Lease into sections, the provision of a table of contents and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Lease.

(h) *Concerning the Owner Trustee.* Wilmington Trust Company is entering into this Lease solely as Owner Trustee under the Trust Agreement and not in its individual capacity. Accordingly, each of the representations, warranties, undertakings and agreements herein made on the part of the Owner Trustee as Lessor is made and intended not as a personal representation, warranty, undertaking or agreement by or for the purpose or with the intention of binding Wilmington Trust Company personally, but is made and intended for the purpose of binding only the Trust Estate; this Lease is executed and delivered by the Owner Trustee solely in the exercise of the powers expressly conferred upon it as trustee under the Trust Agreement; and no personal liability or responsibility is assumed hereunder by or shall at any time be enforceable against Wilmington Trust Company or any successor in trust on account of any action taken or omitted to be taken or any representation, warranty, undertaking or agreement hereunder of the Owner Trustee, either expressed or implied, all such personal liability, if any, being expressly waived by the Lessee, except that the Lessee or any Person acting by, through or under it, making a claim hereunder, may look to the Trust Estate for satisfaction of the same and Wilmington Trust Company or its successor in trust, as applicable, shall be personally liable for its own gross negligence or willful misconduct in the performance of its duties as Owner Trustee or otherwise. If a successor owner trustee is appointed in accordance with the terms of the Trust Agreement, such successor owner trustee, without any further act, shall succeed to all the rights, duties, immunities and obligations of the Owner Trustee hereunder and the predecessor owner trustee shall be released from all further duties and obligations hereunder.

(i) *Lien of the Indenture.* The Lessee hereby agrees that, except as provided in Section 8(f), any property subject to the lien and security interest of the Indenture that is to be transferred hereunder shall be transferred subject to such lien and security interest, as more fully described in Section 11(b).

(j) *Counterpart Execution.* This Lease may be executed in any number of counterparts and by each of the parties hereto in separate counterparts, all such counterparts together constituting but one and the same instrument. Although this Lease is dated as of the date first above written for convenience, the actual date of execution hereof by the parties hereto is the Closing Date, and this Lease shall be effective on, and shall not be binding on any party hereto until, the Closing Date.

(k) *Waiver of Valuation and Appraisement Laws.* All amounts now or hereafter owed under this Lease shall be payable without relief from valuation and appraisement laws.

In Witness Whereof, each of the parties hereto has caused this Lease to be duly executed in New York, New York, by an officer thereunto duly authorized as of the date and year first above written.

Wilmington Trust Company, not in its individual capacity but solely as Owner Trustee, as Lessor

[Corporate Seal]

Attest: ....
Name: N[illegible] P Closs
Title: Vice [illegible]sident

By: ....
Name: James P. Lawler
Title: Financial Services Officer

AEP Generating Company, as Lessee

[Corporate Seal]

Attest: ....
Name: Jeffrey D. Cross
Title: Assistant Secretary

By: ....
Name: G. P. Maloney
Title: Vice President

The address of the within named Lessor is:

Wilmington Trust Company
Rodney Square North
Wilmington, Delaware 19890
Attn: Corporate Trust Administration

The address of the within named Lessee is:

AEP Generating Company
c/o American Electric Power Service Corporation
1 Riverside Plaza
Columbus, Ohio 43215
Attn: Chief Financial Officer

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

On this, the 5th day of December, 1989, before me, a Notary Public in and for said County and State, personally appeared James P. Lawler and Norma P. Closs, the Fin. Svcs. Officer and V.P. of WILMINGTON TRUST COMPANY, who acknowledged themselves to be duly authorized officers of WILMINGTON TRUST COMPANY, and that, as such officers, being authorized to do so, they executed the foregoing instrument for the purposes therein contained by signing and attesting the name of WILMINGTON TRUST COMPANY.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal on the date above-mentioned.

CAROL MOSER
NOTARY PUBLIC, State of New York
No. 31-4954131
Qualified in New York County
Certificate Filed in New York County
Commission Expires August 7, 1991

Carol Moser
Name:
Notary Public
My Commission Expires: 8/7/91
Residing in NY County.

STATE OF NEW YORK }
COUNTY OF NEW YORK } ss.:

On this, the 5th day of December, 1989, before me, a Notary Public in and for said County and State, personally appeared G. P. Maloney and Jeffrey D. Cross, the Vice President and Assistant Secretary of AEP GENERATING COMPANY, who acknowledged themselves to be duly authorized officers of AEP GENERATING COMPANY, and that, as such officers, being authorized to do so, they executed the foregoing instrument for the purposes therein contained by signing and attesting the name of AEP GENERATING COMPANY.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal on the date above-mentioned.

CAROL MOSER
NOTARY PUBLIC, State of New York
No. 31-4954131
Qualified in New York County
Certificate Filed in New York County
Commission Expires August 7, 1991

Carol Moser
Name:
Notary Public
My Commission Expires: 8/7/91
Residing in NY County.

This Instrument was prepared by Jeffrey D. Cross, American Electric Power Service Corporation, 1 Riverside Plaza, Columbus, Ohio 43215.

Schedule 1 to
Lease [PMCC]

BASIC RENT PERCENTAGES

Basic Rent Payment Date Occurring In	Basic Rent Percentage	Basic Rent Payment Date Occurring In	Basic Rent Percentage
June 1990	4.3944717%	December 2006	4.3944717%
December 1990	4.3944717	June 2007	4.3944717
June 1991	4.3944717	December 2007	4.3944717
December 1991	4.3944717	June 2008	4.3944717
June 1992	4.3944717	December 2008	4.3944717
December 1992	4.3944717	June 2009	4.3944717
June 1993	4.3944717	December 2009	4.3944717
December 1993	4.3944717	June 2010	4.3944717
June 1994	4.3944717	December 2010	4.3944717
December 1994	4.3944717	June 2011	4.3944717
June 1995	4.3944717	December 2011	4.3944717
December 1995	4.3944717	June 2012	4.3944717
June 1996	4.3944717	December 2012	4.3944717
December 1996	4.3944717	June 2013	4.3944717
June 1997	4.3944717	December 2013	4.3944717
December 1997	4.3944717	June 2014	4.3944717
June 1998	4.3944717	December 2014	4.3944717
December 1998	4.3944717	June 2015	4.3944717
June 1999	4.3944717	December 2015	4.3944717
December 1999	4.3944717	June 2016	4.3944717
June 2000	4.3944717	December 2016	4.3944717
December 2000	4.3944717	June 2017	4.3944717
June 2001	4.3944717	December 2017	4.3944717
December 2001	4.3944717	June 2018	4.3944717
June 2002	4.3944717	December 2018	4.3944717
December 2002	4.3944717	June 2019	4.3944717
June 2003	4.3944717	December 2019	4.3944717
December 2003	4.3944717	June 2020	4.3944717
June 2004	4.3944717	December 2020	4.3944717
December 2004	4.3944717	June 2021	4.3944717
June 2005	4.3944717	December 2021	4.3944717
December 2005	4.3944717	June 2022	4.3944717
June 2006	4.3944717	December 2022	4.3944717

Schedule 2 to
Lease [PMCC]

STIPULATED LOSS VALUE PERCENTAGES

Basic Rent Payment Date Occurring In	Stipulated Loss Value Percentage	Basic Rent Payment Date Occurring In	Stipulated Loss Value Percentage
June 1990	102.93888101%	December 2006	93.61873028%
December 1990	103.66722351	June 2007	92.34917536
June 1991	104.32895998	December 2007	91.01105324
December 1991	104.92149319	June 2008	89.61485606
June 1992	105.45201801	December 2008	88.17668990
December 1992	105.91912126	June 2009	86.69561244
June 1993	106.32929824	December 2009	85.16626207
December 1993	106.68235090	June 2010	83.58774582
June 1994	106.98180746	December 2010	81.95775608
December 1994	107.22010014	June 2011	80.27533836
June 1995	107.39036188	December 2011	78.53809553
December 1995	107.51022165	June 2012	76.74501359
June 1996	107.57752980	December 2012	74.89353775
December 1996	107.58589642	June 2013	72.98259066
June 1997	107.53778865	December 2013	71.00944960
December 1997	107.42681815	June 2014	68.97297280
June 1998	107.25519565	December 2014	66.87026309
December 1998	107.01654002	June 2015	64.70482029
June 1999	106.71278610	December 2015	62.48998083
December 1999	106.33756661	June 2016	60.21392595
June 2000	105.89271753	December 2016	57.88211276
December 2000	105.37264033	June 2017	55.48748503
June 2001	104.77860930	December 2017	53.03626036
December 2001	104.10442410	June 2018	50.52065936
June 2002	103.35102630	December 2018	47.94835494
December 2002	102.51226035	June 2019	45.31060851
June 2003	101.58870234	December 2019	42.61565423
December 2003	100.57515652	June 2020	39.85475607
June 2004	99.50977714	December 2020	37.03702783
December 2004	98.39298750	June 2021	34.15304238
June 2005	97.24307194	December 2021	31.21292493
December 2005	96.06524814	June 2022	28.17222028
June 2006	94.85615234	December 2022	25.00000000

Schedule 3 to
Lease [PMCC]

TERMINATION VALUE PERCENTAGES

Basic Rent Payment Date Occurring In	Termination Value Percentage	Basic Rent Payment Date Occurring In	Termination Value Percentage
June 1990	102.93888101%	December 2006	93.61873028%
December 1990	103.66722351	June 2007	92.34917536
June 1991	104.32895998	December 2007	91.01105324
December 1991	104.92149319	June 2008	89.61485606
June 1992	105.45201801	December 2008	88.17668990
December 1992	105.91912126	June 2009	86.69561244
June 1993	106.32929824	December 2009	85.16626207
December 1993	106.68235090	June 2010	83.58774582
June 1994	106.98180746	December 2010	81.95775608
December 1994	107.22010014	June 2011	80.27533836
June 1995	107.39036188	December 2011	78.53809553
December 1995	107.51022165	June 2012	76.74501359
June 1996	107.57752980	December 2012	74.89353775
December 1996	107.58589642	June 2013	72.98259066
June 1997	107.53778865	December 2013	71.00944960
December 1997	107.42681815	June 2014	68.97297280
June 1998	107.25519565	December 2014	66.87026309
December 1998	107.01654002	June 2015	64.70482029
June 1999	106.71279610	December 2015	62.48998083
December 1999	106.33756661	June 2016	60.21932595
June 2000	105.89271753	December 2016	57.88211276
December 2000	105.37264083	June 2017	55.48748503
June 2001	104.77860990	December 2017	53.03626036
December 2001	104.10442410	June 2018	50.52085936
June 2002	103.35102690	December 2018	47.94835494
December 2002	102.51226035	June 2019	45.31060851
June 2003	101.58870234	December 2019	42.61565423
December 2003	100.57515652	June 2020	39.85475607
June 2004	99.50977714	December 2020	37.03702783
December 2004	98.39298750	June 2021	34.15304238
June 2005	97.24907194	December 2021	31.21292493
December 2005	96.06524814	June 2022	28.17222028
June 2006	94.85615234	December 2022	25.00000000

Appendix A
[PMCC/AEGCO]

DEFINITIONS

"Additional Bonds" shall mean Bonds in addition to the initial series of Bonds.

"Additional Equity Investment" shall have the meaning specified in Section 8(e) of the Lease.

"Additional Insureds" shall mean the Lessor and the Owner Participant and, where applicable, the Indemnitees.

"Additional Notes" shall have the meaning set forth in the recitations in the Indenture, which Additional Notes shall be issued, if at all, pursuant to Section 3.05 of the Indenture.

"Adjoining Premises" shall have the meaning set forth in the Ground Lease.

"Adjusted Theoretical Return" shall mean Initial Theoretical Return, increased or decreased to reflect changes in applicable Federal income tax rates not taken into account in an adjustment to Basic Rent made pursuant to Section 3(d) of the Lease; *provided, however*, that in determining the amount of any increase or decrease required to preserve the Owner Participant's Adjusted Theoretical Return, it is intended that the Owner Participant's net after-tax yield and net after-tax cash flow (preserving its originally expected aggregate book earnings over the five-year period next succeeding the date of determination) shall each be maintained (or, where one such component must be enhanced in order to preserve the other component, enhanced).

"Administrative Agent" shall have the meaning specified in the Participation Agreement Supplement.

"AEGCO" shall mean AEP Generating Company, an Ohio corporation, and its successors and assigns.

"AEP" shall mean American Electric Power Company, Inc., a New York corporation, and its successors and assigns.

"Affiliate", with respect to any Person, shall mean any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"After-Tax Basis" shall mean (i) with respect to any payment to be received by any Indemnitee, the amount of such payment supplemented by a further payment or payments so that, after deducting from such payments the amount of all Taxes (net of any current credits or deductions or other Tax benefits arising therefrom) imposed by any Governmental Authority with respect to such payments (whether or not such Taxes are payable or such Tax benefits are received in the year of receipt or accrual), the sum of such payments shall be equal to the original payment to be received, and (ii) with respect to any payment to be made by any Indemnitee, the amount of such payment supplemented by a further payment or payments so that, after increasing such payment by the amount of any credits or other Tax benefits realized under the laws of any Governmental Authority (whether or not such credits or benefits are received in the year of payment) resulting from the making of such payment, the sum of such payments (net of such credits or benefits) shall be equal to the original payment to be made. In the case of the Owner Participant, for the purposes of the preceding sentence, it shall be assumed that Federal income taxes and state and local income taxes are payable by the Owner Participant at the highest marginal rates applicable to corporations in effect from time to time and,

in the case of the Owner Participant's state and local income taxes, such taxes will be computed on the basis that all items of income, gain, loss and deduction are apportioned 85% to New York, 15% to Virginia and 0% to all other states.

"Agent" shall have the meaning specified in the Participation Agreement Supplement.

"Applicable Law" shall mean all applicable laws, statutes, treaties, rules, codes, ordinances, regulations, permits, certificates, orders, interpretations, licenses and permits of any Governmental Authority and judgments, decrees, injunctions, writs, orders or like action of any court, arbitrator or other administrative, judicial or quasi-judicial tribunal or agency of competent jurisdiction (including those pertaining to health, safety or the environment).

"Appraisal" shall mean the written appraisal delivered by the Appraiser pursuant to Section 8.01(dd) of the Participation Agreement.

"Appraisal Procedure" shall mean a procedure whereby two independent appraisers, one appointed by the Lessor and one by the Lessee, shall agree upon the value, period, amount or determination then the subject of an appraisal. If either the Lessor or the Lessee shall determine that a value, period, amount or determination to be determined under the Lease or any other Transaction Document cannot timely be established by agreement, such party shall appoint its appraiser and give notice thereof to the other party, which shall appoint its appraiser within 30 days thereafter. If such other party does not appoint its appraiser within such thirty-day period, the determination of the first appraiser made within 60 days thereafter shall be conclusive and binding on the Lessor and the Lessee. If within 60 days after appointment of the second of the two appraisers, such appraisers are unable to agree upon the value, period, amount or determination in question, they jointly shall appoint a third appraiser within 10 days thereafter, or, if they do not do so, either the Lessor or the Lessee may request the American Arbitration Association, or any organization successor thereto, to appoint the third appraiser from a panel of arbitrators knowledgeable on the subject of coal-fired electric generating plants and the equipment used or operated in connection therewith. The decision of the third appraiser shall be given within 60 days after his appointment. If three appraisers shall be so appointed, the average of all three determinations shall be conclusive and binding on the Lessor and the Lessee unless the determination of one appraiser is disparate from the middle determination by more than twice the amount by which the third determination is disparate from the middle determination, in which case the determination of the most disparate appraiser shall be excluded and the average of the remaining two determinations shall be conclusive and binding on the Lessor and the Lessee. The obligation to pay the fees and expenses of appraisers incurred in connection with any Appraisal Procedure relating to any transaction contemplated by any provision of the Lease or any other Transaction Document shall be divided equally between the Lessor and the Lessee (except the obligation to pay such fees and expenses in connection with an Appraisal Procedure pursuant to Section 16 of the Lease, which shall be solely that of the Lessee, and except the obligation to pay such fees and expenses in connection with an Appraisal Procedure pursuant to subsection 2.3(a) of the Ground Lease, which shall be solely that of the Ground Lessee).

For purposes of the Ground Lease, the foregoing definition shall be modified by substituting "Ground Lessee" for "Lessor" and "Ground Lessor" for "Lessee".

"Appraiser" shall mean R.W. Beck and Associates.

"Assigned Payments" shall have the meaning specified in clause (2) of the first sentence of Section 2.01 of the Indenture.

"Assumptions" shall mean the Pricing Assumptions and the Tax Assumptions.

"Authorized Officer" shall mean, with respect to the Indenture Trustee, any officer in the Corporate Trust Administration Department of the Indenture Trustee who shall be duly authorized

by appropriate corporate action to authenticate a Note or to execute any Transaction Document, and shall mean, with respect to the Owner Trustee, any officer of the Owner Trustee who shall be duly authorized by appropriate corporate action to execute any Transaction Document.

"*Bankruptcy Code*" shall mean the Bankruptcy Reform Act of 1978, as amended and as the same may be further amended, and any other Applicable Law with respect to bankruptcy, insolvency or reorganization that is successor thereto.

"*Basic Lease Term*" shall mean the period commencing on the Closing Date and ending on the date which is the 33rd anniversary of the Closing Date (or such shorter period as may result from earlier termination of the Lease as provided therein).

"*Basic Rent*" shall have the meaning set forth in Section 3(a) of the Lease.

"*Basic Rent Payment Dates*" shall mean and include the date which is six months and the date which is twelve months after the Closing Date and each anniversary of each such date during the Lease Term.

"*Bill of Sale*" shall mean the Bill of Sale, Warranty Deed, Instrument of Transfer and Severance Agreement (AEGCO Trust 1) dated the Closing Date, between the Lessee and the Owner Trustee, substantially in the form of Exhibit G to the Participation Agreement.

"*Bonds*" shall mean all bonds, notes and other evidences of indebtedness from time to time issued and outstanding under the Collateral Trust Indenture.

"*Business Day*" shall mean any day other than a Saturday or Sunday or other day on which banks in New York, New York, Columbus, Ohio, or the city in which the Indenture Trustee's Office is located are authorized or required to be closed.

"*Capital Funds Agreement*" shall mean the Capital Funds Agreement dated as of December 30, 1988, between AEP and AEGCO, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof and of the Participation Agreement.

"*Change in Tax Law*" shall mean any amendment to the Code that shall be enacted into law and become effective (including any technical correction to any such effective amendment that subsequently shall be enacted into law) or any change in the Income Tax Regulations (including any proposed or temporary Regulations) or any other administrative interpretation of the Code that shall be adopted or promulgated, as the case may be, subsequent to the Contract Date and on or prior to the Closing Date, that causes the Owner Participant to experience tax consequences more or less favorable than those assumed in Section 2 of the Tax Indemnification Agreement.

"*Chief Financial Officer*" shall mean the chief financial officer of the Lessee.

"*Closing*" shall mean the proceedings that occur on the Closing Date, as contemplated by the Participation Agreement.

"*Closing Date*" shall mean the date, not later than December 31, 1989, set forth in the Notice of Closing.

"*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time, or any comparable successor Federal statute.

"*Collateral Trust Indenture*" shall mean the Collateral Trust Indenture dated as of December 1, 1989, between Funding Corporation and the Collateral Trust Trustee, substantially in the form of Exhibit I to the Participation Agreement, as supplemented by the First Supplemental Indenture to the Collateral Trust Indenture dated as of December 1, 1989, substantially in the form of Exhibit J to the Participation Agreement, and as the same may be amended, modified or further supplemented from time to time in accordance with the provisions thereof and of the other Transaction Documents.

"*Collateral Trust Indenture Supplement*" shall mean a supplement to the Collateral Trust Indenture.

"*Collateral Trust Trustee*" shall mean The Connecticut National Bank as trustee under the Collateral Trust Indenture, and each successor trustee thereunder.

"*Collateral Trust Trustee's Counsel*" shall mean Shipman & Goodwin, or such other counsel as shall be selected by the Collateral Trust Trustee.

"*Common Facilities*" shall have the meaning set forth in the Ground Lease.

"*Contract Date*" shall mean the date on which the Participation Agreement is executed and delivered by the parties thereto.

"*Deemed Loss Event*" shall mean the following event (unless and until waived in writing by the Owner Participant): If, at any time from and including the Closing Date and before the Lease Termination Date, the Lessor or the Owner Participant, solely by reason of the acquisition or ownership of the Undivided Interest or any part thereof by the Lessor (or the beneficial interest therein by the Owner Participant) or the lease of the Undivided Interest to the Lessee or any of the other transactions contemplated by the Transaction Documents, shall be deemed by any Governmental Authority having jurisdiction to be, or shall become subject to regulation (other than Nonburdensome Regulation) as, an electric utility, a public utility or a holding company of an electric utility or public utility under any Applicable Law (other than the Holding Company Act so long as by virtue of Rule 7D the Lessor or the Owner Participant is not deemed to be a utility thereunder), or as a consequence of any Governmental Action, and the effect thereof on the Lessor or the Owner Participant or any Affiliate which controls the Lessor or the Owner Participant would be, in the sole judgment of the Owner Participant, acting on the advice of counsel, adverse; *provided, however*, that, if the Lessee is contesting diligently and in good faith any Governmental Action that would otherwise constitute a Deemed Loss Event, such Deemed Loss Event shall be deemed not to have occurred so long as (i) such contest does not involve any danger of the foreclosure, forfeiture or loss, or the creation of any Lien (other than a Permitted Lien) on, the Undivided Interest or any part thereof or interest therein or any substantial danger of the sale of the Undivided Interest or any part thereof or interest therein, (ii) the Lessee shall have furnished to the Owner Participant an opinion of independent counsel satisfactory to the Owner Participant to the effect that (a) there exists a reasonable basis for contesting such determination or (b) in the case of any action arising from or related to the Lessor or the Owner Participant under the Holding Company Act, it is more likely than not that the Lessee will contest such determination successfully, without the need for any appeal, (iii) such determination shall be effectively stayed or withdrawn during such contest (and shall not be subject to retroactive application at the conclusion of such contest) in a manner satisfactory to the Owner Participant, and the Owner Participant shall have determined in its sole judgment that such contest and the Lessor's continued ownership of the Undivided Interest during the pendency of such contest will not adversely affect its business or the business of any of its Affiliates, and (iv) the Lessee shall have indemnified the Lessor and the Owner Participant in a manner satisfactory to the Owner Participant for any liability or loss that they may incur as a result of such determination and contest.

"*Default*" shall mean an event or condition that, with the giving of notice or lapse of time, or both, would constitute an Event of Default.

"*Directive*" shall mean an instrument in writing executed in accordance with the terms and provisions of the Indenture by the Holders, or their duly authorized agents or attorneys-in-fact, representing a Majority in Interest of Holders of Notes, directing the Indenture Trustee to take or refrain from taking the action specified in such instrument or otherwise advising the Indenture Trustee; *provided, however*, that each Holder of Notes then Outstanding, or its duly authorized agent or attorney-in-fact, shall be entitled to direct the Indenture Trustee only with respect to the aggregate unpaid principal amount of Notes (or portion thereof) issued and Outstanding that are registered in the name of such Holder and that are certified by such Holder or its duly authorized agent or attorney-in-fact to be (i) held by it for its own account and not pledged as collateral for any of its obligations or (ii) pledged as collateral for one or more of its obligations, or obligations with respect to which it is acting as trustee under a related indenture, but in respect of which it has received a directive, satisfactory in form and substance to the Indenture Trustee, given by the holder or holders of a proportionate interest in the obligations secured by such Notes in accordance with the instrument governing such obligations. More than one directive can be given by a registered Holder of Notes or its duly authorized agent or attorney-in-fact pursuant to clause (ii) of the preceding sentence, and such directives may be contradictory or inconsistent, so long as each directive to take or refrain from taking the action specified therein or otherwise advising the Indenture Trustee meets the requirements of said clause (ii).

"*Discount Rate*" shall mean 10.63%.

"*DOM*" shall have the meaning set forth in Section 5.01(h) of the Participation Agreement.

"*Easements*" shall have the meaning set forth in the Ground Lease.

"*Entitlement*" shall have the meaning set forth in the Unit 2 Operating Agreement.

"*EOM*" shall have the meaning set forth in Section 5.01(h) of the Participation Agreement.

"*Equity Portion of Rent*" shall mean: (i) in the case of any payment of Basic Rent, the amount of Basic Rent payable under the Lease reduced by the principal and interest then due and payable on the Outstanding Notes; (ii) in the case of any payment of Stipulated Loss Value or Termination Value, the amount thereof reduced by the principal amount of, and accrued interest on, the Outstanding Notes; or (iii) in the case of any other payment of Supplemental Rent, the amount thereof payable to the Owner Participant or the Owner Trustee.

"*ERISA*" shall mean the Employee Retirement Income Security Act of 1974, as amended and as the same may be further amended, or any comparable successor Federal statute.

"*Eurodollar Rate Advances*" shall have the meaning specified in the Participation Agreement Supplement.

"*Event of Default*" shall have the meaning set forth in Section 15 of the Lease.

"*Event of Loss*" shall mean any of the following events: (i) a Final Shutdown; (ii) a Requisition of Title; or (iii) a Requisition of Use that would significantly interfere with the use of Unit 2 for a Period that will exceed five years or end after the expiration of the Lease Term (including any Renewal Term in respect of which the Lessee then has exercised an option pursuant to Section 12 of the Lease).

"*Excepted Payments*" shall mean: (i) all indemnity payments (including, without limitation, payments under the Tax Indemnification Agreement whether made by adjustment to Basic Rent or otherwise) to which the Owner Trustee, the Owner Participant or any of their respective Affiliates (or the respective successors, assigns, agents, officers, directors or employees of the Owner Trustee or the Owner Participant), is entitled; (ii) any amounts payable under any Transaction Document to reimburse the Owner Trustee, the Owner Participant or any of their respective Affiliates (including the reasonable expenses of the Owner Trustee and the Owner Participant incurred in connection with any such payment), for performing or complying with any of the obligations of the Lessee under and as permitted by any Transaction Document; (iii) any amount payable to the Owner Participant by any Transferee as the purchase price of the Owner Participant's interest in the Trust Estate; (iv) any insurance proceeds or other payments received from any Governmental Authority, insurer or other Person (except the Lessee) with respect to an Event of Loss in excess of amounts then due and owing to reimburse the Indenture Trustee for any Trustee's Expenses and to pay the reasonable remuneration of the Indenture Trustee plus amounts then due and owing in respect of the principal of, and premium, if any, and interest on, all Notes Outstanding; (v) any insurance proceeds (or payments with respect to risks self-insured) under liability policies; (vi) any insurance proceeds under policies maintained by the Owner Trustee or the Owner Participant and not required to be maintained by the Lessee under the Lease; and (vii) any payments in respect of interest to the extent attributable to payments referred to in clauses (i) through (vi) above.

"Excepted Rights" shall mean (i) all rights with respect to Excepted Payments of the Person entitled thereto and (ii) all rights and privileges expressly reserved to the Owner Trustee or the Owner Participant exclusively or jointly with the Indenture Trustee pursuant to the Indenture for the periods specified in the Indenture.

"Excess Amount" shall have the meaning set forth in Section 11.11 of the Participation Agreement.

"Existing Mortgage" shall mean the Mortgage and Deed of Trust, dated as of June 1, 1939, between Indiana Michigan Power Company (formerly known as Indiana & Michigan Electric Company) and Irving Trust Company, as trustee, as supplemented.

"Expenses" shall mean liabilities, obligations, losses (excluding loss of anticipated profits), damages, claims, actions, suits, judgments, out-of-pocket costs, expenses and disbursements (including legal fees and expenses) of any kind and nature whatsoever.

"Fair Market Renewal Term" shall have the meaning set forth in Section 12(b) of the Lease.

"Fair Market Rental Value" shall mean, with respect to the Undivided Interest, the value, which shall not in any event be less than zero, that would be obtained in an arm's-length transaction for cash between an informed and willing lessee and an informed and willing lessor, neither of whom is under any compulsion to lease, for the use of the Undivided Interest on the Unit 2 Site for a given period, taking into account the rights and obligations of the Lessor as ground lessee under the Ground Lease and the rights of the Lessor as buyer under the Bill of Sale. Except pursuant to Section 16 of the Lease, Fair Market Rental Value of the Undivided Interest shall be determined on the assumption that: (i) Unit 2 is in the condition and state of repair required under Section 8(a) of the Lease; (ii) the Lessee is in compliance with the requirements of the Transaction Documents; (iii) such lessee will have the same rights and obligations as a "Participant" under the Unit 2 Operating Agreement; and (iv) during such lease period, Basic Rent will be payable in equal semiannual installments in arrears. With respect to any other property, including, without limitation, an undivided interest in any Severable Modification, *"Fair Market Rental Value"* shall mean the value, which shall not in any event be less than zero, that would be obtained in an arm's-length transaction for cash between an informed and willing lessee and an informed and willing lessor, neither of whom is under any compulsion to lease, for the use of such property.

"Fair Market Sales Value" shall mean, with respect to the Undivided Interest, the value, which shall not in any event be less than zero, that would be obtained in an arm's-length transaction for cash between an informed and willing purchaser and an informed and willing seller, neither of whom is under any compulsion to purchase or sell, respectively, for the ownership of the Undivided Interest on the Unit 2 Site, taking into account the rights and obligations of the Lessor as ground lessee under the Ground Lease and the rights of the Lessor as buyer under the Bill of Sale. Except pursuant to Section 16 of the Lease, Fair Market Sales Value of the Undivided Interest shall be determined on the assumption that: (i) Unit 2 is in the condition and state of repair required under Section 8 of the Lease; (ii) the Lessee is in compliance with the requirements of the Transaction Documents; and (iii) an owner of the Undivided Interest will have the same rights and obligations as a "Participant" under the Unit 2 Operating Agreement. With respect to any other property, including, without limitation, an undivided interest in any Severable Modification, *"Fair Market Sales Value"* shall mean the value, which shall not in any event be less than zero, that would be obtained in an arm's-length transaction for cash between an informed and willing purchaser and an informed and willing seller, neither of whom is under any compulsion to purchase or sell, respectively, for the ownership of such property.

"Federal Power Act" shall mean the Federal Power Act, as amended from time to time, or any comparable successor Federal statute.

"FERC" shall mean the Federal Energy Regulatory Commission of the United States of America or any successor agency.

"Final Determination", with respect to a Loss, shall mean (i) a decision, judgment, decree or other order by any court of competent jurisdiction, which decision, judgment, decree or other order

has become final (i.e., when all allowable appeals have been exhausted by all parties to the action) or, in any case where judicial review shall at the time be unavailable because the proposed adjustment involves a decrease in a net operating loss carryforward or a business credit carryforward, a decision, judgment, decree or other order of an administrative official or agency of competent jurisdiction, which decision, judgment, decree or other order has become final (i.e., when all administrative appeals have been exhausted by all parties thereto), (ii) a closing agreement entered into under Section 7121 of the Code or any other settlement agreement entered into in connection with any administrative or judicial proceeding (including any settlement of a proposed adjustment entered into by the Owner Participant in accordance with Section 7(a) of the Tax Indemnification Agreement) or (iii) the expiration of the time for instituting a claim for refund, or if such a claim was filed, the expiration of the time for instituting suit with respect thereto.

"Final Shutdown" shall mean the occurrence of any of the following events: (i) the destruction of Unit 2; (ii) damage to Unit 2 and the failure of the Lessee to complete the repair, restoration or reconstruction of Unit 2 by the date that is five years after such damage, or, if earlier, by the expiration of the Lease Term (including any Renewal Term in respect of which the Lessee then has exercised an option pursuant to Section 12 of the Lease); or (iii) the cessation of operation of Unit 2 as a result of damage to Unit 2 for a Period that will exceed five years or end after the expiration of the Lease Term (including any Renewal Term in respect of which the Lessee then has exercised an option pursuant to Section 12 of the Lease).

"Financing Documents" shall mean the Collateral Trust Indenture and the Underwriting Agreement.

"Fixed Rate Renewal Basic Rent" shall mean, for each six-month period during the Fixed Rate Renewal Term, if any, an amount of rent equal to 100% of the average of the installments of Basic Rent paid by the Lessee during the Basic Lease Term.

"Fixed Rate Renewal Term" shall have the meaning set forth in Section 12(a) of the Lease.

"Form U-7D" shall mean the certificate to be filed pursuant to Rule 7(d) of the Holding Company Act.

"Funding Corporation" shall mean RGS (AEGCO) Funding Corporation (formerly known as RGS Funding Corporation), a Delaware corporation, and its successors and assigns.

"Funding Corporation's Initial Series B Percentage" shall mean the percentage specified as such in the Notice of Closing.

"Funding Corporation's Initial Series C Percentage" shall mean the percentage specified as such in the Notice of Closing.

"Funding Corporation's Initial Series D Percentage" shall mean the percentage specified as such in the Notice of Closing.

"Funding Corporation's Special Counsel" shall mean such counsel as shall be selected by Funding Corporation.

"Goldman Sachs" shall mean Goldman, Sachs & Co.

"Governmental Action" shall mean all permits, authorizations, registrations, consents, approvals, waivers, exceptions, variances, orders, judgments and decrees, licenses, exemptions, publications, filings, notices to and declarations of or with any Governmental Authority (other than routine reporting requirements the failure to comply with which will not affect the validity or enforceability of any of the Transaction Documents or have a material adverse effect on the transactions contemplated by any Transaction Document or any Financing Document or any other action in respect of any Governmental Authority) and shall include, without limitation, all sitings, environmental and operating permits and licenses that are required for the use and operation of Unit 2 and the Common Facilities.

"Governmental Authority" shall mean any Federal, state, county, municipal, foreign, international, regional or other governmental authority, agency, board, body, instrumentality or court.

"Granting Clause Documents" shall have the meaning specified in clause (2) of the first sentence of Section 2.01 of the Indenture.

"*Ground Lease*" shall mean the Ground Lease and Easement Agreement (AEGCO Trust 1) dated as of December 1, 1989, between the Ground Lessor and the Ground Lessee and consented to by I&M, substantially in the form of Exhibit D to the Participation Agreement, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof.

"*Ground Leasehold*" shall have the meaning set forth in the Ground Lease.

"*Ground Lease Property*" shall have the meaning set forth in the Ground Lease.

"*Ground Lease Term*" shall have the meaning set forth in the Ground Lease.

"*Ground Lessee*" shall mean the Owner Trustee, as lessee under the Ground Lease, and, to the extent permitted under the Trust Agreement and the other Transaction Documents, its successors and assigns as lessee under the Ground Lease.

"*Ground Lessor*" shall mean AEGCO, as lessor under the Ground Lease, and its successors and assigns.

"*Holders*" shall mean the registered owners of the Notes Outstanding.

"*Holding Company Act*" shall mean the Public Utility Holding Company Act of 1935, as amended.

"*I&M*" shall mean Indiana Michigan Power Company, an Indiana corporation, and its successors and assigns.

"*Indemnitees*" shall mean the Owner Participant, Wilmington Trust Company (in its individual capacity and as Owner Trustee under the Trust Agreement), Funding Corporation, the stockholders of Funding Corporation, The Connecticut National Bank (in its individual capacity and as Indenture Trustee under the Indenture), each Holder of a Note from time to time Outstanding, the Collateral Trust Trustee in its individual capacity and as Trustee under the Collateral Trust Indenture, the Trust, the Trust Estate, the Lease Indenture Estate, the indenture estate under the Collateral Trust Indenture, any Affiliate of any of the foregoing and the respective successors, assigns, agents, officers, directors or employees of the foregoing, excluding, however, any "Participant" under the Unit 2 Operating Agreement other than the Owner Trustee or the Owner Participant, to the extent either or both of them should become such a "Participant".

"*Indenture*" shall mean the Trust Indenture, Mortgage and Security Agreement (AEGCO Trust 1) dated as of December 1, 1989, between the Owner Trustee and the Indenture Trustee, substantially in the form of Exhibit C to the Participation Agreement, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof.

"*Indenture Default*" shall mean an event which, after giving of notice or lapse of time, or both, would become an Indenture Event of Default.

"*Indenture Event of Default*" shall mean any of the events specified in Section 6.02 of the Indenture.

"*Indenture Supplement*" shall mean a supplement to the Indenture.

"*Indenture Trustee*" shall mean The Connecticut National Bank, not in its individual capacity except as otherwise expressly provided in the Participation Agreement, but solely as Indenture Trustee under the Indenture, and each successor trustee and co-trustee thereunder.

"*Indenture Trustee's Counsel*" shall mean Shipman & Goodwin, or such other counsel as shall be selected by the Indenture Trustee.

"*Indenture Trustee's Liens*" shall mean Liens against the Lease Indenture Estate that result from acts of, or any failure to act by, or as a result of claims against, The Connecticut National Bank, unrelated to the transactions contemplated by the Transaction Documents.

"*Indenture Trustee's Office*" shall mean the office of the Indenture Trustee located at 777 Main Street, Hartford, Connecticut 06115, or such other office as may be designated by the Indenture Trustee to the Owner Trustee, the Lessee and each Holder of a Note Outstanding under the Indenture.

"Independent Tax Counsel" shall mean independent tax counsel selected by the Owner Participant and reasonably acceptable to the Lessee.

"Initial Series A Notes" shall mean the nonrecourse promissory notes, substantially in the form of Schedule 1 to the Indenture, to be issued to the Original Loan Participants pursuant to Article III of the Indenture by the Owner Trustee and authenticated by the Indenture Trustee on the Closing Date to finance a portion of the Purchase Price of the Undivided Interest.

"Initial Series B Notes" shall mean the nonrecourse promissory notes, substantially in the form of Schedule 2 to the Indenture, to be issued to Funding Corporation pursuant to Article III of the Indenture by the Owner Trustee and authenticated by the Indenture Trustee on the Closing Date to finance a portion of the Purchase Price of the Undivided Interest.

"Initial Series C Notes" shall mean the nonrecourse promissory notes, substantially in the form of Schedule 3 to the Indenture, to be issued to Funding Corporation pursuant to Article III of the Indenture by the Owner Trustee and authenticated by the Indenture Trustee on the Closing Date to finance a portion of the Purchase Price of the Undivided Interest.

"Initial Series D Notes" shall mean the nonrecourse promissory notes, substantially in the form of Schedule 4 to the Indenture, to be issued to Funding Corporation pursuant to Article III of the Indenture by the Owner Trustee and authenticated by the Indenture Trustee on the Closing Date to finance a portion of the Purchase Price of the Undivided Interest.

"Initial Series Notes" shall mean the Initial Series A Notes, the Initial Series B Notes, the Initial Series C Notes and the Initial Series D Notes.

"Initial Theoretical Return" shall mean the Owner Participant's expected net after-tax yield and net after-tax cash flow (preserving its originally expected aggregate book earnings over the five-year period next succeeding the date of determination) on its Investment resulting from the transactions described in and contemplated by the Transaction Documents, based on an amount of Basic Rent during the Basic Lease Term equal to the percentages of Lessor's Cost originally set forth on Schedule 1 to the Lease and based on the Pricing Assumptions and of the assumptions set forth in Section 2 of the Tax Indemnification Agreement; *provided, however,* that in determining the amount of any increase or decrease required to preserve the Owner Participant's Initial Theoretical Return, it is intended that the Owner Participant's net after-tax yield and net after-tax cash flow (preserving its originally expected aggregate book earnings over the five-year period next succeeding the date of determination) shall each be maintained (or, where one such component must be enhanced in order to preserve the other component, enhanced). Initial Theoretical Return shall not mean or include the Owner Participant's return on equity or return on assets.

"Investment" shall have the meaning set forth in Section 2.01 of the Participation Agreement.

"Investment Amount" shall have the meaning set forth in Section 2.01 of the Participation Agreement.

"Investment Company Act" shall mean the Investment Company Act of 1940, as amended.

"Investment Grade Quality", when used with respect to any Notes, shall mean (i) if such Notes are rated by Moody's or Standard & Poor's, the rating is at least "Baa" (or such other rating which at the time is the equivalent thereof) by Moody's or "BBB" (or such other rating which at the time is the equivalent thereof) by Standard & Poor's, or (ii) if such Notes are not rated by Moody's or Standard & Poor's, they are of a credit quality equivalent to the ratings specified in clause (i) above.

"IRS" shall mean the Internal Revenue Service of the United States Department of the Treasury or any successor agency.

"Irving Trust Company" shall mean Irving Trust Company, a New York banking corporation, and its successors and assigns.

"IURC" shall mean the Indiana Utility Regulatory Commission or any successor agency.

"KEPCO" shall mean Kentucky Power Company, a Kentucky corporation, and its successors and assigns.

"Late Payment Rate", with respect to the Notes of any series, shall have the meaning set forth in the Notes of such series.

"Lease" shall mean the Lease Agreement (AEGCO Trust 1) dated as of December 1, 1989, between the Lessor and the Lessee, substantially in the form of Exhibit A to the Participation Agreement, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof and of the Indenture.

"Lease Indenture Estate" shall have the meaning set forth in Section 2.01 of the Indenture.

"Lease Term" shall mean the Basic Lease Term and, if the lease of the Undivided Interest is renewed pursuant to Section 12 of the Lease, each Renewal Term.

"Lease Termination Date" shall mean the last day of the Lease Term (whether occurring by reason of a termination or expiration of the Lease Term).

"Lessee" shall mean AEGCO, as lessee under the Lease, and its successors and assigns as lessee under the Lease.

"Lessee's Counsel" shall mean the general counsel or an associate general counsel of American Electric Power Service Corporation.

"Lessee's Special Counsel" shall mean Simpson Thacher & Bartlett, or such other counsel as shall be selected by the Lessee.

"Lessee's Special Indiana Counsel" shall mean Baker & Daniels and Miller, Carson & Boxberger, or such other counsel as shall be selected by the Lessee.

"Lessor" shall mean the Owner Trustee, as lessor under the Lease, and, to the extent permitted under the Trust Agreement and the other Transaction Documents, its successors and assigns as lessor under the Lease.

"Lessor's Cost" shall mean the Purchase Price plus the sum of (i) all Supplemental Financing Amounts and (ii) all Additional Equity Investment amounts.

"Lessor's Liens" or *"Owner Trustee's Liens"* shall mean Liens against the Trust Estate or the Lease Indenture Estate that result from acts of, or any failure to act by, or as a result of claims against, Wilmington Trust Company, unrelated to the ownership of the Undivided Interest, its status as Lessor under the Lease, its interest in the Ground Lease Property, the administration of the Trust Estate or the transactions contemplated by the Transaction Documents.

"Lien" shall mean any mortgage, pledge, security interest, encumbrance, lien, easement, servitude or charge of any kind, including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof or the filing of, or agreement to execute as "debtor", any financing statement under the Uniform Commercial Code of any jurisdiction.

"Loan Participants" shall mean the Original Loan Participants, so long as the Initial Series A Notes are Outstanding, and each other Holder of a Note from time to time.

"Loans" shall mean the loans made to finance a portion of the Purchase Price for the Undivided Interest by the Original Loan Participants pursuant to Section 2.03(a) and by Funding Corporation pursuant to Section 2.03(b).

"Loss" shall have the meaning set forth in Section 5(a) of the Tax Indemnification Agreement.

"Majority in Interest of Holders of Notes" shall mean Holders of a majority in principal amount of all Notes Outstanding under the Indenture at the time of any such determination.

"Modification" shall mean (a) any addition, alteration, improvement or modification to Unit 2, other than original, substitute or replacement parts incorporated into Unit 2, and (b) the addition, betterment or enlargement of any property constituting part of Unit 2 or the replacement of any such property with other property, irrespective of whether (i) such replacement property constitutes an enlargement or betterment of the property that it replaces, (ii) the cost of such addition, betterment,

enlargement or replacement is or may be capitalized, or charged or not charged to maintenance or repairs, in accordance with the Uniform System of Accounts or (iii) such addition, betterment or enlargement is or is not included or reflected in the plans and specifications for Unit 2, as built; *provided, however*, that, where the context so requires, reference to a Modification shall mean the Lessor's Undivided Interest Percentage in such Modification.

"*Moody's*" shall mean Moody's Investors Service, Inc., and any successor that issues nationally accepted securities ratings.

"*Nonburdensome Regulation*" shall mean (i) ministerial regulatory requirements that do not impose limitations or regulatory requirements on the business or activities of the Owner Participant (or any Affiliate thereof) and that are deemed, in the reasonable discretion of the Owner Participant, not to be burdensome, (ii) assuming redelivery of the Undivided Interest in accordance with Section 5 of the Lease, regulation resulting from any possession of the Undivided Interest (or right thereto) on or after the Lease Termination Date or (iii) regulation of the Owner Trustee that would be terminated by the appointment of a successor Owner Trustee or a co-Owner Trustee pursuant to the terms of the Trust Agreement.

"*Nonseverable Modification*" shall mean any Modification that is not a Severable Modification.

"*Noteholder*" shall mean any Holder from time to time of a Note Outstanding under the Indenture.

"*Notes*" shall mean the Initial Series Notes and any Additional Notes.

"*Notice of Closing*" shall mean a notice from the Lessee, substantially in the form of Schedule 2 to the Participation Agreement, setting forth, among other things, the Closing Date, the Purchase Price of the Undivided Interest, payment instructions with respect to the disposition of the proceeds of the Purchase Price, and the respective amounts of the Owner Participant's Investment and of each Original Loan Participant's Loan to be made on the Closing Date.

"*Obsolescence Redemption Date*" shall mean (i) if any Bonds are outstanding on the related Termination Date, the date that is 40 days after such Termination Date, or if such date is not a Business Day, the next Business Day thereafter, or (ii) if no Bonds are outstanding, such Termination Date.

"*Officers' Certificate*" shall mean (i) in the case of Wilmington Trust Company and The Connecticut National Bank, a certificate signed by any Authorized Officer of such Person and (ii) in the case of any other Person, a certificate signed by the President or any Vice President and by the Treasurer, any Assistant Treasurer, the Secretary or any Assistant Secretary of such Person.

"*Operating Agreement*" shall mean (i) until the Operation Commencement Date, the Rockport Plant Operating Agreement, and (ii) from and after the Operation Commencement Date, the Unit 2 Operating Agreement.

"*Operation Commencement Date*" shall have the meaning set forth in the Unit 2 Operating Agreement.

"*Operator*" shall mean I&M in its capacity as the operator under the Operating Agreement, and any successor and any assign as operator under the Operating Agreement.

"*Original Loan Participants*" shall mean the banks which become parties to the Participation Agreement pursuant to Section 2.02 thereof by entering into the Participation Agreement Supplement, excluding any such bank in its capacity as Agent or Administrative Agent.

"*Original Loan Participant's Commitment*" shall have the meaning set forth in Section 2.03 of the Participation Agreement.

"*Original Loan Participant's Percentage*", with respect to any Original Loan Participant, shall mean the percentage set forth opposite such Original Loan Participant's name in the Participation Agreement Supplement.

"*Original Loan Participants' Special Counsel*" shall mean such counsel, acceptable to the Lessee, as shall be selected by the Original Loan Participants.

"Original Loan Participants' Special Indiana Counsel" shall mean such Indiana counsel, acceptable to the Lessee, as shall be selected by the Original Loan Participants.

"Original of the Lease" shall mean the fully executed counterpart of the Lease marked "THIS COUNTERPART IS THE ORIGINAL EXECUTED COUNTERPART" pursuant to Section 21(e) of the Lease and containing the receipt of the Indenture Trustee.

"Outstanding", when used with respect to Notes, shall mean, as of the date of determination, all such Notes theretofore issued, authenticated and delivered under the Indenture, except (a) Notes theretofore cancelled by the Indenture Trustee or delivered to the Indenture Trustee for cancellation, (b) Notes or portions thereof for the payment of which the Indenture Trustee holds (and has notified the Holders thereof that it holds) in trust for that purpose an amount sufficient to make full payment thereof when due and (c) Notes in exchange for, or in lieu of, which other Notes have been issued, authenticated and delivered pursuant to the Indenture; *provided, however,* that any Note owned by the Lessee, the Owner Participant or the Owner Trustee or any Affiliate of any thereof shall be disregarded and deemed not to be Outstanding for the purpose of any Directive.

"Overdue Interest Rate" shall mean the weighted average rate per annum of interest payable with respect to overdue payments of principal on the Notes Outstanding, computed as set forth in such Notes.

"Owner Participant" shall mean Philip Morris Credit Corporation, a Delaware corporation, and, to the extent permitted by the Trust Agreement and the Participation Agreement, each successor or assign of such Person.

"Owner Participant's Liens" shall mean Liens against the Trust Estate or the Lease Indenture Estate that result from acts of, or any failure to act by, or as a result of claims against, the Owner Participant, unrelated to the transactions contemplated by the Transaction Documents.

"Owner Participant's Percentage" shall mean the percentage set forth in the Pricing Assumptions opposite the term "Owner Participant's Percentage".

"Owner Participant's Special Counsel" shall mean Hunton & Williams, or such other counsel as shall be selected by the Owner Participant.

"Owner Participant's Special Indiana Counsel" shall mean Bose McKinney & Evans, or such other counsel as shall be selected by the Owner Participant.

"Owners' Agreement" shall mean the Owners' Agreement dated as of March 31, 1982, among I&M, AEGCO and KEPCO, as amended by the First Amendment Agreement, dated as of November 22, 1983, and the Second Amendment Agreement, dated as of July 23, 1984, and as the same may be further amended, modified or supplemented from time to time in accordance with the provisions thereof.

"Owner Trustee" shall mean Wilmington Trust Company, not in its individual capacity except as otherwise expressly provided in the Participation Agreement and any other Transaction Document, but solely as Owner Trustee under the Trust Agreement, and each successor as trustee and each separate trustee and co-trustee thereunder.

"Owner Trustee's Counsel" shall mean Richards, Layton & Finger, or such other counsel as shall be selected by the Owner Trustee.

"Participants" shall mean the Owner Participant and the Original Loan Participants.

"Participation Agreement" shall mean the Participation Agreement (AEGCO Trust 1) dated as of March 15, 1989, among the Lessee, the Owner Participant, Funding Corporation, the Owner Trustee, the Indenture Trustee and the Original Loan Participants, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof.

"Participation Agreement Supplement" shall mean the Participation Agreement Supplement (AEGCO Trust 1) dated as of October 1, 1989, among the parties to the Participation Agreement, the Agents and the Administrative Agent, pursuant to which certain banks became parties to the Participation Agreement as Original Loan Participants.

"Parts" shall mean appliances, parts, instruments, appurtenances, accessories and equipment of whatever nature, whether or not constituting Modifications.

"Penalty Rate" shall mean the higher of (i) 1% per annum in excess of the Prime Rate and (ii) the Overdue Interest Rate.

"Period" shall mean the length of time for which an action or event is stated or otherwise known at its inception to be in existence (determined by the terms of such action or event or the surrounding circumstances), or is expected at its inception to be in existence as determined by an independent engineering consultant or firm having expertise on the subject of coal-fired electric generating plants jointly designated by the Lessor and the Lessee within 10 days after either of them shall request such designation (which the Lessor or the Lessee may do at any time after such action or event occurs) or, if the Lessor and the Lessee are unable to agree on such consultant or firm within such 10-day period, designated by the American Arbitration Association, or any organization successor thereto, within seven days after either the Lessor or the Lessee shall request such organization to do so (which the Lessor or the Lessee may do at any time after the expiration of such 10-day period). Such consultant or firm shall render its determination within 14 days after its designation, which determination shall be conclusive and binding on the Lessor and the Lessee. The obligation to pay the fees and expenses of any such consultant or firm shall be shared equally by the Lessor and the Lessee.

"Permitted Liens" shall mean: (i) the respective rights and interests of the parties to the Transaction Documents, as provided in the Transaction Documents; (ii) the rights of any sublessee or assignee under a sublease or an assignment permitted by the terms of the Lease; (iii) Lessor's Liens, Owner Participant's Liens and Indenture Trustee's Liens; (iv) Liens for Taxes that either are not yet due or are being contested in good faith and by appropriate proceedings diligently conducted, so long as such proceedings do not (a) involve any danger of the foreclosure, forfeiture or loss of the Undivided Interest, the Unit 2 Site Interest or the Easements or any part thereof or interest therein or any substantial danger of the sale of the Undivided Interest or any part thereof or interest therein, (b) interfere with the use, possession or disposition of the Undivided Interest, the Unit 2 Site Interest or the Easements or any part thereof or interest therein or (c) interfere with the payment of Rent; (v) materialmen's, mechanics', workmen's, repairmen's, employees', carriers', warehousemen's and other like Liens relating to the construction of Unit 2 or the Common Facilities or in connection with any Modification or arising in the ordinary course of business for amounts that either are not more than 30 days past due or are being contested in good faith by appropriate proceedings, so long as such proceedings satisfy the conditions for the continuation of proceedings to contest Taxes set forth in clause (iv) above; (vi) Liens of any of the types referred to in clause (v) above that have been bonded for the full amount in dispute (or as to which other security arrangements satisfactory to the Lessor have been made); (vii) Liens arising out of judgments or awards with respect to which appeals or other proceedings for review are being prosecuted in good faith and for the payment of which adequate reserves have been provided as required by generally accepted accounting principles or other appropriate provisions have been made, so long as such proceedings have the effect of staying the execution of such judgments or awards and satisfy the conditions for the continuation of proceedings to contest Taxes set forth in clause (iv) above; (viii) the rights and interests of the Lessee under the Ground Lease and the Rockport Plant Agreements; (ix) the rights of the Rockport Plant Companies (other than the Lessee) under the Rockport Plant Agreements; (x) rights reserved to or vested in any Governmental Authority to condemn or appropriate the Undivided Interest, Unit 2, any Modification, the Unit 2 Site, the Unit 2 Site Interest, the Common Facilities, the Easements, the Rockport Plant Site or the Rockport Plant, or to control or regulate any of the foregoing or the use thereof in any manner; (xi) all restrictions, defects, encumbrances and irregularities in the title to the Undivided Interest, Unit 2, the Unit 2 Site, the Unit 2 Site Interest, the Common Facilities, the Easements, the Rockport Plant Site or the Rockport Plant and other Liens that are specified in the title report delivered to the Participants on the Closing Date pursuant to Section 3.01(gg) of the Participation Agreement; (xii) Liens on the undivided interests in Unit 2 and the Unit 2 Site owned by the Rockport Plant Companies and other Persons (other than the Lessee); (xiii) Liens on Unit 1 and the Unit 1 Site; (xiv) Liens on the Common Facilities, the Easements, the Adjoining Premises and Severable Modifications title to the undivided interest in which is retained by the Lessee as provided in Section 8(d) of the

Lease that (a) have been approved by the Owner Participant and a Majority in Interest of Holders of Notes or (b) do not materially impair the use and operation of the Undivided Interest, Unit 2, the Unit 2 Site, the Unit 2 Site Interest, the Common Facilities, the Easements, the Rockport Plant Site or the Rockport Plant, or materially and adversely affect the value thereof; (xv) Liens on any replacement Part the cost of which does not exceed $25,000,000 for a period not exceeding 90 days from the date such Part is incorporated into Unit 2; (xvi) Liens on any replacement Part the cost of which exceeds $25,000,000 but is less than $35,000,000 for a period not exceeding 30 days from the date such Part is incorporated into Unit 2; and (xvii) other Liens that, in the aggregate, do not materially impair the use of the Undivided Interest, Unit 2, the Unit 2 Site, the Unit 2 Site Interest, the Common Facilities, the Easements, the Rockport Plant Site or the Rockport Plant, or materially and adversely affect the value thereof.

"*Person*" shall mean any individual, partnership, corporation, trust, unincorporated association or joint venture, a government or any department or agency thereof, or any other entity.

"*Pricing Assumptions*" shall mean the assumptions set forth in Schedule 3 to the Participation Agreement.

"*Prime Rate*" shall mean the rate of interest publicly announced from time to time by Citibank, N.A., at its principal office in New York, New York, as its prime or base lending rate. Any change in the Prime Rate shall be effective on the date such change in the Prime Rate is announced.

"*Prudent Utility Practice*" shall mean, at a given time, any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry prior to such time or any of the practices, methods and acts that, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at the lowest reasonable cost consistent with good business practices, reliability, safety and expedition. "*Prudent Utility Practice*" is not intended to be limited to the optimum practice, method or act to the exclusion of all others, but rather to a spectrum of possible practices, methods or acts having due regard for, among other things, manufacturers' warranties and the requirements of Governmental Authorities and the requirements of the Transaction Documents.

"*Purchase Documents*" shall mean the Bill of Sale and such other documents as the Owner Participant, the Owner Trustee and the Indenture Trustee shall deem desirable to convey good and marketable title to the Undivided Interest to the Owner Trustee.

"*Purchase Price*" shall mean an amount equal to the Undivided Interest Percentage of $1,700,000,000.

"*Reasonable Basis*" for a position shall exist if tax counsel may properly advise reporting such position on a tax return in accordance with Formal Opinion 85-352 issued by the Standing Committee on Ethics and Professional Responsibility of the American Bar Association.

"*Refunding Bonds*" shall mean any series of bonds of Funding Corporation issued, authenticated and delivered under the Collateral Trust Indenture, as supplemented, if necessary, by a Refunding Supplemental Indenture, the proceeds of which will be used to refund the Initial Series Notes or any Additional Notes.

"*Refunding Date*" shall mean any date on which Refunding Notes are issued.

"*Refunding Loans*" shall mean nonrecourse loans made at any time or from time to time to the Owner Trustee to refund Initial Series A Notes pursuant to Section 2.06(a) of the Participation Agreement or to refund Initial Series B Notes, Initial Series C Notes, Initial Series D Notes or Additional Notes pursuant to Section 2.06(b) of the Participation Agreement.

"*Refunding Notes*" shall mean any nonrecourse promissory notes that are issued by the Owner Trustee pursuant to the Indenture on any Refunding Date to refund Notes Outstanding in whole or in part.

"*Refunding Supplemental Indenture*" shall mean any Collateral Trust Indenture Supplement between Funding Corporation and the Collateral Trust Trustee, supplementing the Collateral Trust Indenture and providing, among other things, for the issuance of Bonds or Refunding Bonds.

"Registration Statement" shall mean a registration statement, including all exhibits and all documents incorporated in such registration statement by reference, filed with the SEC under the Securities Act in connection with the offer, issue and sale of any Refunding Bonds.

"Regulations" shall mean the income tax regulations issued, published or promulgated from time to time under the Code, or under the Internal Revenue Code of 1954, as amended.

"Renewal Option" shall mean an option to renew the Lease for a Renewal Term.

"Renewal Term" shall mean the Fixed Rate Renewal Term, if any, and any and all Fair Market Renewal Terms.

"Rent" shall mean Basic Rent and Supplemental Rent.

"Requisition of Title" shall mean any circumstance or event in consequence of which Unit 2 or the Undivided Interest, or any portion of the Common Facilities or the Rockport Plant Site the loss of which would significantly interfere with the use of Unit 2, shall be condemned or seized or title thereto shall be requisitioned or taken by any Governmental Authority under power of eminent domain or otherwise.

"Requisition of Use" shall mean any circumstance or event other than a Requisition of Title in consequence of which the use of Unit 2 or the Undivided Interest or any portion of the Common Facilities or the Rockport Plant Site shall be requisitioned or taken by any Governmental Authority under power of eminent domain or otherwise.

"Responsible Officer" shall mean, with respect to the subject matter of any representation, warranty, covenant, agreement or obligation of any party contained in any Transaction Document, the President, or any Vice President, Assistant Vice President, Treasurer, Assistant Treasurer or other officer who in the normal performance of his operational responsibility would have knowledge of such matter and the requirements with respect thereto.

"Retained Assets" shall mean (i) the Lessee's undivided ownership interest in the Rockport Plant other than the Undivided Interest, (ii) the Lessee's undivided ownership interest in the Rockport Plant Site, (iii) the Lessee's undivided ownership interest in the Common Facilities and (iv) Severable Modifications title to the undivided interest in which was not acquired by the Lessor but was retained by the Lessee as provided in Section 8(d) of the Lease.

"Rockport Plant" shall mean the two 1300-megawatt coal-fired electric generating units located on the Ohio River in Spencer County, Indiana, approximately three miles north of the City of Rockport on US Highway 231.

"Rockport Plant Agreements" shall mean the Rockport Plant Operating Agreement, the Unit 2 Operating Agreement, the Owners' Agreement and the Unit Power Agreement.

"Rockport Plant Companies" shall mean AEGCO, I&M and KEPCO.

"Rockport Plant Operating Agreement" shall mean the Operating Agreement for Rockport Steam Electric Generating Units Nos. 1 and 2 dated August 1, 1984, among I&M, AEGCO and KEPCO, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof and of the Participation Agreement.

"Rockport Plant Site" shall mean the approximately 3,293 acres of land on which the Rockport Plant is located, consisting of the Unit 2 Site, the Unit 1 Site and the Adjoining Premises.

"Rule 7D" shall mean Rule 7D (or any comparable successor thereto) of the General Rules and Regulations adopted under the Holding Company Act by the SEC.

"Sale Proceeds" shall mean, with respect to any sale of the Undivided Interest or any part thereof by the Lessor to any Person, the gross proceeds of such sale paid in cash, less all costs and expenses incurred by the Lessor and the Owner Participant in connection therewith.

"SEC" shall mean the Securities and Exchange Commission of the United States of America or any successor agency.

"Section 6(c) Application" shall mean Funding Corporation's Application for an Order under Section 6(c) of the Investment Company Act of 1940 exempting Funding Corporation from all provisions of such Act, as filed with the SEC and as the same may be amended, modified and supplemented from time to time.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Severable Modification" shall mean any Modification that either (i) can be removed from Unit 2 without materially damaging Unit 2 or materially diminishing the value or utility of Unit 2, or (ii) constitutes a flue gas desulfurization system or other pollution-control equipment of comparable expense that is required by Applicable Law, whether or not such system or other equipment can be removed from Unit 2 without materially damaging Unit 2 or materially diminishing the value, utility or useful life of Unit 2.

"Special Severable Modifications" shall have the meaning set forth in the Ground Lease.

"Standard & Poor's" shall mean Standard & Poor's Corporation and any successor that issues nationally accepted securities ratings.

"Stipulated Loss Value", as of any Basic Rent Payment Date during the Basic Lease Term, shall mean the percentage of Lessor's Cost set forth opposite such date in Schedule 2 to the Lease. Anything contained in the Participation Agreement or the Lease to the contrary notwithstanding, Stipulated Loss Value, when added to all other amounts that the Lessee is required to pay under Section 9(c) of the Lease or under any other provision requiring the payment of Stipulated Loss Value, under any circumstances and in any event, shall be in an amount at least sufficient to pay in full, as of the date of payment, the aggregate unpaid principal amount of and premium, if any, payable on all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes. Stipulated Loss Value as of any Basic Rent Payment Date during any Renewal Term shall mean an amount equal to the lesser of (a) 25% of Lessor's Cost and (b) the Fair Market Sales Value of the Undivided Interest as of the first day of such Renewal Term, after deducting from such amount depreciation to such Basic Rent Payment Date calculated on a straight-line basis from the first day of such Renewal Term to the end of the estimated useful life of Unit 2.

"Supplemental Financing" shall mean a financing of the Supplemental Financing Amount of Modifications effected pursuant to Section 8(e) of the Lease.

"Supplemental Financing Amount" shall mean that portion of the Undivided Interest Percentage of the cost of a Modification financed by the Owner Participant through the Lessor pursuant to Section 8(e) of the Lease which exceeds the amount of the related Additional Equity Investment of the Lessor, if any.

"Supplemental Rent" shall have the meaning set forth in Section 3(b) of the Lease.

"Surviving Lessee" shall have the meaning specified in Section 6.01(d)(ii)(A) of the Participation Agreement.

"Tax" or *"Taxes"* shall mean any and all fees (including, without limitation, documentation, recording, license and registration fees), taxes (including, without limitation, net income, franchise, value added, ad valorem, gross income, gross receipts, sales, use, property (personal and real, tangible and intangible) and stamp taxes), levies, imposts, duties, charges, assessments or withholdings of any nature whatsoever, general or special, ordinary or extraordinary, together with any and all penalties, fines, additions to tax and interest thereon.

"Tax Affiliate" shall mean any Affiliate of or any shareholder of any Person, or any Person related to another Person within the meaning of Section 318 of the Code.

"*Tax Assumptions*" shall mean the assumptions set forth in Section 2 of the Tax Indemnification Agreement with respect to the Federal and state income tax consequences of the transactions contemplated by the Transaction Documents.

"*Tax Indemnification Agreement*" shall mean the Tax Indemnification Agreement (AEGCO Trust 1) dated as of March 15, 1989, between the Lessee and the Owner Participant, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof.

"*Termination Date*" shall have the meaning set forth in Section 14(a) of the Lease.

"*Termination Event*" shall mean any early termination of the Lease in accordance with Section 14 thereof.

"*Termination Notice*" shall have the meaning set forth in Section 14(a) of the Lease.

"*Termination Value*", as of any Basic Rent Payment Date during the Basic Lease Term, shall mean the percentage of Lessor's Cost set forth opposite such date in Schedule 3 to the Lease. Anything contained in the Participation Agreement or the Lease to the contrary notwithstanding, Termination Value, when added to all other amounts which the Lessee is required to pay under Section 9(d) of the Lease or under any other provisions of the Lease that require the payment of Termination Value, under any circumstances and in any event, shall be in an amount at least sufficient to pay in full, as of the date of payment, the aggregate unpaid principal amount of and premium, if any, payable on all Notes Outstanding at the close of business on such date, together with accrued and unpaid interest on such Notes. Termination Value as of any Basic Rent Payment Date during any Renewal Term shall mean an amount equal to the lesser of (a) 25% of Lessor's Cost and (b) the Fair Market Sales Value of the Undivided Interest as of the first day of such Renewal Term, after deducting from such amount depreciation to such Basic Rent Payment Date calculated on a straight-line basis from the first day of such Renewal Term to the end of the estimated useful life of Unit 2.

"*The Connecticut National Bank*" shall mean The Connecticut National Bank, a national banking association, in its individual capacity, and its successors and assigns.

"*Transaction Documents*" shall mean the Participation Agreement, the Lease, the Ground Lease, the Trust Agreement, the Indenture, the Tax Indemnification Agreement, each Purchase Document and the Notes.

"*Transaction Expenses*" shall have the meaning set forth in Section 9.01 of the Participation Agreement.

"*Transfer*" shall mean the transfer, by bill of sale or otherwise, by the Lessor of all the Lessor's right, title and interest in and to the Undivided Interest, the Unit 2 Site Interest and the Easements and under the Bill of Sale, the Ground Lease and the Unit 2 Operating Agreement on an "as is, where is with all faults" basis, free and clear of all Lessor's Liens and Owner Participant's Liens (but subject to the Lien of the Indenture if and to the extent it attaches) and free and clear of the Owner Participant's beneficial interest therein but otherwise without recourse, representation or warranty, together with the due assumption by the transferee of, and the due release of the Lessor from, all the Lessor's obligations under the Ground Lease and the Unit 2 Operating Agreement by an instrument or instrument satisfactory in form and substance to the Lessor and the Owner Participant.

"*Transferee*" shall have the meaning set forth in Article VIII of the Participation Agreement.

"*Transmission Facilities*" shall have the meaning set forth in the Ground Lease.

"*Trust*" shall mean the trust created by the Trust Agreement.

"*Trust Agreement*" shall mean the Amended and Restated Trust Agreement (AEGCO Trust 1) dated as of December 1, 1989, between the Owner Participant and Wilmington Trust Company, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof and of the Indenture and the Participation Agreement.

"*Trust Estate*" shall have the meaning set forth in Section 2.02 of the Trust Agreement.

"Trust Indenture Act" shall mean the Trust Indenture Act of 1939, as amended and as the same may be further amended, or any comparable successor Applicable Law.

"Trustee's Expenses" shall mean any and all liabilities, obligations, costs, compensation, fees, expenses and disbursements (including, without limitation, reasonable legal fees and expenses) of any kind and nature whatsoever (other than such amounts as are included in Transaction Expenses) which may be imposed on, incurred by or asserted against the Indenture Trustee or any of its agents, servants or personal representatives, in any way relating to or arising out of the Indenture, the Lease Indenture Estate, the Participation Agreement or the Lease, or any document contemplated thereby, or the performance or enforcement of any of the terms thereof, or in any way relating to or arising out of the administration of the Lease Indenture Estate or the action or inaction of the Indenture Trustee under the Indenture; *provided, however,* that such amounts shall not include any Taxes or any amount expressly excluded from the Lessee's indemnity obligation pursuant to Section 7.01 of the Participation Agreement.

"UCC" or *"Uniform Commercial Code"* shall mean the Uniform Commercial Code as in effect in any applicable jurisdiction.

"Underwriting Agreement" shall mean an agreement among Funding Corporation, the Lessee and the underwriter or underwriters for any Refunding Bonds, relating to the purchase, sale and delivery of such Refunding Bonds.

"Undivided Interest" shall mean an undivided ownership interest in Unit 2, the percentage of which equals the Undivided Interest Percentage; the owner of the Undivided Interest shall be a tenant-in-common with the owners (including the Lessee, if it should be such an owner) of all other undivided interests in Unit 2. Where the context so requires, Undivided Interest includes an appropriate portion of "Total Net Capability of Unit 2" and "Total Net Generation of Unit 2" under, and as defined in, the Operating Agreement.

"Undivided Interest Percentage" shall mean 25.0000%.

"Uniform System of Accounts" shall mean the Uniform System of Accounts prescribed for Public Utilities and Licensees subject to the provisions of the Federal Power Act (Class A and Class B), 18 C.F.R. 101, as in effect on the Contract Date, as the same may be amended from time to time after such date.

"Unit 1" shall have the meaning set forth in the Ground Lease.

"Unit 1 Permitted Encroachments" shall have the meaning set forth in the Ground Lease.

"Unit 1 Shared Facilities" shall have the meaning set forth in the Ground Lease.

"Unit Power Agreement" shall mean the Unit Power Agreement dated as of March 31, 1982, between I&M and AEGCO, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof and of the Participation Agreement.

"Unit 2" shall mean the 1300-megawatt coal-fired electric generating unit constituting part of the Rockport Plant which is commonly known as Unit 2, consisting of (a) all structures, systems, facilities, improvements and related equipment located on, under or above the Unit 2 Site, including the Unit 2 Shared Facilities but excluding Common Facilities, Transmission Facilities and Unit 1 Permitted Encroachments, (b) all Unit 2 Permitted Encroachments and (c) all Modifications except those to which the Lessee retains title as provided in Section 8(d) of the Lease, regardless of when such property is or was acquired, constructed or installed. Unit 2 is more particularly described in Exhibit A to the Lease.

"Unit 2 Operating Agreement" shall mean the Unit 2 Operating Agreement dated as of December 1, 1989, among the Operator, the Lessee, the Owner Trustee and the other parties named therein, as the same may be amended, modified or supplemented from time to time in accordance with the provisions thereof and of the Participation Agreement.

"Unit 2 Permitted Encroachments" shall have the meaning set forth in the Ground Lease.

"Unit 2 Site" shall have the meaning set forth in the Ground Lease.

"Unit 2 Site Interest" shall mean the undivided interest in the Unit 2 Site leased to the Lessor pursuant to the Ground Lease.

"Unit 2 Shared Facilities" shall have the meaning set forth in the Ground Lease.

"Wilmington Trust Company" shall mean Wilmington Trust Company, a Delaware banking corporation, in its individual capacity, and its successors and assigns.

Exhibit A to
Lease

DESCRIPTION OF THE UNDIVIDED INTEREST

An undivided ownership interest, the percentage of which equals the Undivided Interest Percentage, in Unit 2 of the Rockport Generating Station, located on the Ohio River in Spencer County, Indiana, approximately three miles north of the City of Rockport on U.S. Highway 231, which Unit 2 is more particularly described below.

A. *Description.* The 1300-megawatt coal-fired electric generating unit constituting part of the Rockport Plant which is commonly known as Unit 2, together with all Modifications except those to which Lessee retains title as provided in Section 8(d) of the Lease, consisting of all structures, systems, facilities, improvements, fixtures, equipment and other tangible property located on, under or above the Unit 2 Site, including, but not limited to:

1. Unit 2 Steam Generator, consisting of one Babcock & Wilcox super critical, single reheat, steam generator with a secondary superheater sliding pressure modification, together with associated pulverizers, coal silos, ductwork, fans and subsystems;
2. Unit 2 Turbine-Generator, consisting of one Brown Boveri Corporation single reheat, 1300-megawatt, cross compound turbine generator together with associated isolated phase bus, condensers and subsystems;
3. Unit 2 Electrostatic Precipitators, consisting of four Wheelabrator-Frye, Inc. electrostatic precipitators located on, under and above the Unit 2 Site together with associated fly ash removal equipment, control room, transformers, ductwork, fly ash silos and vacuum pump houses;
4. Unit 2 Cooling Tower System, consisting of one natural draft, counter flow, hyperbolic cooling tower approximately 394 feet in diameter at the base and approximately 533 feet in height, including a closed cycle circulating water system, located on, under or above the Unit 2 Site;
5. Unit 2 Boiler Room and Turbine Room, consisting of all foundations and structures, including walls and/or structural members, located on, under and above the Unit 2 Site;
6. Unit 2 Boiler Feed Pump and Drive, including feedwater heaters, deaerator and associated equipment;
7. Unit 2 controls, auxiliary systems and equipment, including (a) all systems and equipment associated with Items 1 and 2 above located in the Unit 2 Boiler Room and Turbine Room or elsewhere on the Unit 2 Site, (b) all systems and equipment associated with Items 3 and 4 located on the Unit 2 Site, and (c) in the case of systems or equipment a portion of which is located on, under or above the Unit 2 Site and a portion of which is not located on, under or above the Unit 2 Site, that portion of such systems or equipment located on, under or above the Unit 2 Site; and
8. Unit 2 Permitted Encroachments.

B. *Exclusions.* Notwithstanding the foregoing, Unit 2 does not, and shall not be deemed to, include any element or unit of:

1. Spare parts;
2. Transmission Facilities;
3. Unit 2 Site, Unit 1 Site, Adjoining Premises or any other real estate;
4. Common Facilities;
5. Coal, fuel oil and other supplies;
6. Property not located on, under or above the Unit 2 Site, except the Unit 2 Permitted Encroachments;
7. Unit 1 Permitted Encroachments;
8. Mobile vehicles; or
9. Office furniture and other office equipment.

Exhibit B to
Lease

DESCRIPTION OF THE UNIT 2 SITE

A part of Sections 11 and 12, all in Township 7 South, Range 6 West, Spencer County, Indiana, described as follows:

Commencing at an existing railroad spike in the center of Section 1, Township 7 South, Range 6 West; thence South 00 degrees 00 minutes 00 Seconds West 4537.51 feet (bearing system based upon horizontal control of the U.S. Coast and Geodetic Survey monuments "PORT" and "HONEY"); thence North 90 degrees 00 minutes 00 seconds West 2891.44 feet to a ½-inch iron pin set and the point of beginning of this description (said point of beginning being modified to surface Indiana-West coordinate North 154,946.87 and East 513,329.10—said point of beginning also being 43.62 feet West and 60.52 feet south of the center of the "Stack" of the Rockport Generating Plant); thence North 90 degrees 00 minutes 00 seconds East 132.75 feet to the southwest corner of a transformer pad near the west wall of Vacuum Pump House No. 2-1; thence North 00 degrees 00 minutes 00 seconds East 60.52 feet to a ½-inch iron pin set on the East-West Axis of the Rockport Generating Plant; thence North 90 degrees 00 minutes 00 seconds East 559.50 feet to a ½-inch iron pin set; thence South 00 degrees 00 minutes 00 seconds West 48.82 feet to the north face of the outside metal wall of the Rockport Unit 2 Boiler Room building (said point being 3.66 feet East and 1.18 feet North of the centerline of column line number R-1); thence North 90 degrees 00 minutes 00 seconds East 144.14 feet along the north outside face of said metal building and parallel to building column line number "1" of Rockport Unit 2; thence North 00 degrees 00 minutes 00 seconds East 0.80 feet to the north side of a concrete block wall; thence North 90 degrees 00 minutes 00 seconds East 79.47 feet and parallel to building column line number "1" of Rockport Unit 2 along the north side of said concrete block wall to the west side of a north-south concrete block wall which is parallel to building column line "G" of Rockport Unit 2; thence North 00 degrees 00 minutes 00 seconds East 14.42 feet along the west side of said concrete block wall and parallel to building column line "G" of Rockport Unit 2; thence North 90 degrees 00 minutes 00 seconds East 27.52 feet along the south side of the north concrete block wall (and projection thereof) of the switch gear room running parallel to building column line "14" of Rockport Unit 1 to a north-south concrete block wall which wall is parallel to building column line "G" of Rockport Unit 2; thence South 00 degrees 00 minutes 00 seconds West 16.68 feet along the west side of said concrete block wall running parallel to building column line "G" of Rockport Unit 2 to the south side of an east-west concrete block wall which is the south wall of the machine shop for the Rockport Generating Station, and which wall runs parallel to building column line number "1" of Rockport Unit 2; thence North 90 degrees 00 minutes 00 seconds East 54.78 feet along the South side of said concrete block wall running parallel to building column line number "1" of Rockport Unit 2 to the west side of a north-south concrete block wall which is near building column line "DC" of Rockport Unit 2; thence South 00 degrees 00 minutes 00 seconds West 0.85 feet along the west side of said concrete block wall to the south side of an east-west concrete block wall; thence North 90 degrees 00 minutes 00 seconds East 23.57 feet along the south side of said concrete block wall running parallel to building column line number "1" of Rockport Unit 2 to the east side of a north-south concrete block wall; thence North 00 degrees 00 minutes 00 seconds East 1.90 feet to the south side of an east-west concrete block wall which runs parallel to building column line number "1" of Rockport Unit 2; thence North 90 degrees 00 minutes 00 seconds East 53.18 feet along the south side of said concrete block wall running parallel to building column line number "1" of Rockport Unit 2 to the east outside metal wall of the Rockport Unit 2 Turbine Room building; thence North 00 degrees 00 minutes 00 seconds East 24.61 feet along the east outside face of the metal wall of the Rockport Unit 2 Turbine Room building; thence leaving said metal building and running North 90 degrees 00 minutes 00 seconds East 328.47 feet parallel to building column line "13" (extended eastwardly) of Rockport Unit 1 to a ½-inch iron pin set; thence South 00 degrees 01 minute 41 seconds East 1016.09 feet to a ½-inch iron pin set; thence South 44 degrees 58 minutes 36 seconds West 226.30 feet to a ½-inch iron pin set; thence South 89 degrees 59 minutes 15 seconds West 1243.83 feet to a ½-inch iron pin set; thence North 00 degrees 00 minutes 18 seconds West 1140.54 feet to the point of beginning and containing 37.611 Acres, more or less, as shown on a plat of survey dated December 1, 1989 titled "Survey of Rockport Plant prepared for Indiana Michigan Power Company and AEP Generating Company" prepared by Mehling Engineering & Surveying, Inc., and recorded in Miscellaneous Record book 55, page 646, in the Office of the Recorder of Spencer County, Indiana.

Being all or part of the lands conveyed to Indiana & Michigan Electric Company (now Indiana Michigan Power Company—hereafter "I&M") or AEP Generating Company (hereafter "AEPGCo") by the following deeds of record in the Office of the Recorder of Spencer County, Indiana:

	Grantor	Grantee	Deed Date	Inst. No.	Book/Page
1.	Indiana Franklin Realty, Inc.	I&M	08/22/75	75-2317	131/644
2.	I&M	Kentucky Power Company	12/27/83	83-4106	149/390
3.	I&M	AEPGCo	12/27/83	83-4107	149/408
4.	Kentucky Power Company	AEPGCo	10/08/84	84-3246	150/734
5.	I&M	AEPGCo	10/08/84	84-3247	150/749

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